



Nadder Mirsepassi
Assistant Treasurer
Director of Treasury Operations

*2200 River Plaza Drive
Sacramento, CA 95833
(916) 286-6679 (Tel)
(916) 286-6668 (Fax)
mirsepn@sutterhealth.org*

March 6, 2019

Attached please find the following documents for the fiscal year ended December 31, 2018 required pursuant to certain documents relating to certain Sutter Health System obligations. Please note that these documents are also available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") at <http://emma.msrb.org>.

- Audited financial statements of the Sutter Health System and Obligated Group
- Continuing Disclosure Annual Report
- Officer's Certificate of the Corporation as to Compliance with No Event of Default
- Supplemental Information

Should you have questions, please contact me at (916) 286-6679.



2018 Audited Financial Statements

December 31, 2018



Sutter Health and Affiliates
Consolidated Financial Statements
and
Supplementary Information
Years ended December 31, 2018 and 2017

Contents

Audited Consolidated Financial Statements

Report of Independent Auditors	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	3
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements	7

Supplementary Information

Report of Independent Auditors on Supplementary Information	50
---	----

Consolidating Balance Sheet:

Areas, Other and Sutter Health Support Services	51
Sutter Health Bay Area	54
Sutter Health Valley Area.....	57
Other	60

Consolidating Statement of Operations and Changes in Net Assets:

Areas, Other and Sutter Health Support Services	52
Sutter Health Bay Area	55
Sutter Health Valley Area.....	58
Other	61

Consolidated Balance Sheets – Sutter Health Obligated Group.....	63
--	----

Consolidated Statements of Operations and Changes in Net Assets – Sutter Health

Obligated Group	64
Consolidated Statements of Cash Flows – Sutter Health Obligated Group	66
Consolidating Balance Sheet – Sutter Health Obligated Group	68
Consolidating Statement of Operations and Changes in Net Assets – Sutter Health Obligated Group	70

Report of Independent Auditors

The Board of Directors
Sutter Health and Affiliates

We have audited the accompanying consolidated financial statements of Sutter Health and Affiliates, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sutter Health and Affiliates at December 31, 2018 and 2017, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 6, 2019

Sutter Health and Affiliates

Consolidated Balance Sheets

(Dollars in millions)

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 362	\$ 395
Short-term investments	5,000	5,052
Patient accounts receivable	1,223	1,277
Other receivables	835	878
Inventories	127	118
Other	179	200
Total current assets	7,726	7,920
Non-current investments	983	773
Property, plant and equipment, net	8,193	7,954
Other non-current assets	401	434
	<u>\$ 17,303</u>	<u>\$ 17,081</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 761	\$ 854
Accrued salaries and related benefits	647	576
Other accrued expenses	811	877
Current portion of long-term obligations	57	150
Total current liabilities	2,276	2,457
Non-current liabilities:		
Long-term obligations, less current portion	4,626	3,972
Other	1,290	1,094
Net assets:		
Without donor restrictions:		
Controlling	8,530	8,965
Noncontrolling	112	108
With donor restrictions	469	485
Total net assets	9,111	9,558
	<u>\$ 17,303</u>	<u>\$ 17,081</u>

See accompanying notes.

Sutter Health and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in millions)

	Year ended December 31,	
	2018	2017
Net assets without donor restrictions:		
Operating revenues:		
Patient service revenues	\$ 10,957	\$ 10,828
Premium revenues	1,383	1,220
Contributions	6	9
Other	351	387
Total operating revenues	12,697	12,444
Operating expenses:		
Salaries and employee benefits	5,852	5,627
Purchased services	3,372	3,246
Supplies	1,492	1,391
Depreciation and amortization	681	655
Rentals and leases	176	176
Interest	115	105
Insurance	15	15
Other	793	903
Total operating expenses	12,496	12,118
Income from operations	201	326
Investment income	187	336
Change in net unrealized gains and losses on investments classified as trading	(454)	315
Loss on extinguishment of debt	(54)	(19)
(Loss) income	(120)	958
Less income attributable to noncontrolling interests	(78)	(65)
(Loss) income attributable to Sutter Health	(198)	893

Sutter Health and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Dollars in millions)

	Year ended December 31,	
	2018	2017
Net assets without donor restrictions (continued):		
Controlling:		
(Loss) income attributable to Sutter Health	\$ (198)	\$ 893
Change in net unrealized gains and losses on investments classified as other-than-trading	25	22
Net assets released from restriction for equipment acquisition	17	13
Pension-related changes other than net periodic pension cost	(301)	91
Other	22	—
(Decrease) increase in controlling	(435)	1,019
Noncontrolling:		
Income attributable to noncontrolling interests	78	65
Distributions	(74)	(73)
Other	—	4
Increase (decrease) in noncontrolling	4	(4)
Net assets with donor restrictions:		
Contributions	39	45
Investment income	12	15
Change in net unrealized gains and losses on investments	(8)	23
Net assets released from restriction	(35)	(35)
Other	(24)	(3)
(Decrease) increase in net assets with donor restrictions	(16)	45
(Decrease) increase in net assets	(447)	1,060
Net assets, beginning of year	9,558	8,498
Net assets, end of year	<u>\$ 9,111</u>	<u>\$ 9,558</u>

See accompanying notes.

Sutter Health and Affiliates

Consolidated Statements of Cash Flows

(Dollars in millions)

	Year ended December 31,	
	2018	2017
Operating activities		
(Decrease) increase in net assets	\$ (447)	\$ 1,060
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	54	19
Depreciation and amortization	652	633
Amortization of bond issuance costs, (premium) and discount, net	(40)	(29)
Net realized gains and losses and change in net unrealized gains and losses on investments	315	(649)
Restricted contributions and investment income	(51)	(60)
Distributions to noncontrolling interest	74	—
Loss on impairment of property, plant and equipment	18	5
Loss on impairment of goodwill	4	14
Net loss (gain) on disposal of property, plant and equipment	4	(16)
Change in net postretirement benefits	241	(32)
Net changes in operating assets and liabilities:		
Patient accounts receivable and other receivables	97	(357)
Inventories and other assets	30	(28)
Accounts payable and accrued expenses	(149)	547
Other non-current liabilities	(44)	39
Net cash provided by operating activities	<u>758</u>	<u>1,146</u>
Investing activities		
Purchases of property, plant and equipment	(924)	(924)
Proceeds from disposal of property, plant and equipment	34	19
Purchases of investments	(3,529)	(3,185)
Proceeds from sales of investments	3,056	3,050
Other	(2)	(8)
Net cash used in investing activities	<u>(1,365)</u>	<u>(1,048)</u>

Sutter Health and Affiliates

Consolidated Statements of Cash Flows (continued)

(Dollars in millions)

	Year ended December 31,	
	2018	2017
Financing activities		
Payments of long-term obligations	\$ (152)	\$ (54)
Refund of bonds	(633)	(631)
Proceeds from issuance of long-term obligations	1,314	438
Bond issuance costs	(9)	(4)
Bond issuance premium (discount), net	77	62
Restricted contributions and investment income	51	60
Distributions to noncontrolling interest	(74)	—
Net cash provided by (used in) financing activities	574	(129)
Net decrease in cash and cash equivalents	(33)	(31)
Cash and cash equivalents at beginning of year	395	426
Cash and cash equivalents at end of year	<u>\$ 362</u>	<u>\$ 395</u>

See accompanying notes.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollars in millions)

1. ORGANIZATION

Sutter Health is a California not-for-profit multi-provider integrated health care delivery system headquartered in Sacramento, California, which includes a centralized support group and various health care-related businesses operating primarily in Northern California. Sutter Health and its affiliates and subsidiaries provide health care, education, research and administrative services.

Sutter Health's integrated health care delivery system includes acute care, medical foundations, fundraising foundations and a variety of other specialized health care services. These entities are commonly referred to as the affiliates. Most acute care hospitals provide a full range of medical services (e.g., surgical, intensive care, emergency room, and obstetrics). All emergency rooms provide emergency care, regardless of a patient's ability to pay. Sutter Health and its affiliates also serve their communities with various programs, such as health education, health libraries, school-based clinics, home health care, hospice care, adult day care, prenatal clinics, community clinics, immunization services, and health professions education.

2. ACCOUNTING POLICIES

Basis of Consolidation: The Sutter Health and Affiliates consolidated financial statements include the accounts of Sutter Health and its controlled affiliates and subsidiaries (Sutter). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with United States (U.S.) Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents: Cash equivalents include all highly liquid investments with original maturities of 90 days or less, including money market accounts with limited market risk, and investment-grade debt instruments, many of which are backed by the U.S. Government or other government agencies. Financial instruments that potentially subject Sutter to concentrations of credit risk include cash equivalents and investments. Cash equivalents are stated at fair market value.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

Investments: Investments consist principally of U.S. and foreign equity, corporate and government securities, a hedge fund portfolio and private equity funds, all of which are designated as either trading or other-than-trading and carried at fair value or Net Asset Value (NAV) as a practical expedient to estimate fair value. Certain investments are held in trust, including assets held by trustees in accordance with the indentures relating to long-term obligations. In addition, certain investments are designated by the appropriate Sutter governing boards for future capital improvements.

Derivative Instruments: Sutter offsets fair value amounts recognized for certain derivative transactions from contracts executed with the same counterparty under a master netting arrangement. As a result, the net exposure to counterparties is \$0 at December 31, 2018 and 2017.

Patient Accounts Receivable: Sutter's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed from patients and third-party payers. Sutter manages the receivables by regularly reviewing its patient accounts and contracts.

Significant concentrations of gross patient accounts receivable are as follows:

	December 31,	
	2018	2017
Medicare	30%	31%
Medi-Cal	26%	26%

Inventories: Inventories, which consist principally of medical and other supplies, are stated on the basis of cost determined by the first-in, first-out method, which is not in excess of market.

Property, Plant and Equipment: Property, plant and equipment are stated on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation, less depreciation and any impairment write-downs. Equipment includes medical equipment, furniture and fixtures, software, and internally-developed software. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities or extend useful lives are capitalized, as is interest on amounts borrowed to finance constructed assets during the construction phase. Sutter capitalized interest costs of \$42 and \$55 and accrued obligations for property, plant and equipment of \$112 and \$123 as of December 31, 2018 and 2017, respectively.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 2 to 40 years for buildings and improvements, and leasehold improvements, and from 3 to 20 years for equipment. Amortization of equipment under capital leases is included in depreciation and amortization expense.

Asset Impairment: Sutter routinely evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on a qualitative test using the projected net cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, asset impairment is recognized.

Other Assets: Goodwill represents the excess of purchase price over the fair value of net assets acquired. Goodwill and other intangible assets acquired in business combinations that have indefinite useful lives are subject to impairment tests. Sutter performs impairment tests at the reporting unit level annually or when events occur that require an evaluation to be performed. If the carrying value of goodwill is determined to be impaired, or if the carrying value of a business that is to be sold or otherwise disposed of exceeds its fair value, the carrying value is reduced, including any allocated goodwill, to fair value. Estimates of fair value are based on appraisals, established market prices for comparative assets or internal estimates of future net cash flows based on projected performance, depending on circumstances.

The changes in the carrying amount of goodwill, which are included in Other non-current assets, are as follows:

	Year ended December 31,	
	2018	2017
Goodwill at beginning of year	\$ 152	\$ 163
Additions	—	3
Impairment	(4)	(14)
Goodwill at end of year	<u>\$ 148</u>	<u>\$ 152</u>

Other Liabilities: Other non-current liabilities consist of (i) insurance liabilities, including estimated liabilities for professional liability and comprehensive general liability losses, and workers' compensation, (ii) the portion of estimated third-party settlements not expected to be settled within a year, (iii) other postretirement benefits liabilities, and (iv) certain other liabilities.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

Liquidity Management: As part of its liquidity management, Sutter's strategy is to structure its financial assets to be available to satisfy general operating expenses, current liabilities, and other obligations as they come due. Sutter invests cash in excess of daily requirements in short-term investments and has a committed syndicated line of credit, as discussed in Note 7, to help manage unanticipated liquidity needs. Additionally, board-designated funds, as discussed in Note 9, may be utilized if necessary.

Sutter's financial assets available for general operating expenses within one year of December 31, 2018, are as follows:

Cash and cash equivalents	\$ 362
Short-term investments	4,978
Patient accounts receivable	1,223
Other receivables	835
	<hr/>
	\$ 7,398

Risk Management: Sutter Health and most affiliates are insured by a wholly owned self-insured captive insurance company for professional liability claims and comprehensive general liability. Sutter is also self-insured for workers' compensation and employee health for most affiliates. Claim reserves are based on the best data available to Sutter; however, these estimates are subject to a significant degree of inherent variability. Estimates are continually monitored and reviewed, and as reserves are adjusted, the differences are reflected in current operations. Management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims.

The provisions for estimated professional liability and comprehensive general liability claims, workers' compensation, and employee health include estimates of the ultimate costs for both uninsured reported claims and claims incurred-but-not-reported, in accordance with actuarial projections or paid claims lag models based on historical experience. Professional liabilities and comprehensive general liabilities were \$112 and \$110, discounted at a rate of 2.8% and 2.3%, as of December 31, 2018 and 2017, respectively. Workers' compensation liabilities were \$269 and \$278, discounted at a rate of 3.1% and 2.7%, as of December 31, 2018 and 2017, respectively. Employee health liabilities were \$69 and \$57 as of December 31, 2018 and 2017, respectively, and were recorded on an undiscounted basis.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

Sutter has entered into reinsurance, excess, and stop loss policy agreements with independent insurance companies to limit its losses on professional liability, comprehensive general liability, workers' compensation, and employee health claims.

In lieu of a workers' compensation security deposit requirement, Sutter paid assessment charges to participate in the California Self Insurers' Alternative Security Program, which provided coverage of \$293 and \$288 as of December 31, 2018 and 2017, respectively.

Contingencies: Estimated losses from contingencies are recorded when they are probable and reasonably estimable.

Net Assets: Net resources that are not restricted by donors are included in Net assets without donor restrictions. Gifts of long-lived operating assets, such as property, plant or equipment, are reported as Net assets without donor restrictions and excluded from income. Resources restricted by donors for a specified time or purpose are reported as Net assets with donor restrictions.

When the specific purposes are met, either through passage of a stipulated time period or when the purpose for restriction is accomplished, they are released to Other operating revenues in the Statement of Operations and Changes in Net Assets. Resources restricted by donors for additions to property, plant and equipment are initially reported as Net assets with donor restrictions and are transferred to Net assets without donor restrictions when expended. Donor-imposed restrictions, which stipulate that the resources be maintained permanently, are reported as Net assets with donor restrictions.

Investment income related to net assets with donor restrictions is classified as either Net assets without donor restrictions or Net assets with donor restrictions based on the intent of the donor.

Purchased Services: Purchased services expense is made up of a wide variety of contracted and other purchased services, including medical group compensation, other professional fees, repairs and maintenance, and capitated purchased services. Medical group compensation is accrued by Sutter according to professional services agreements between affiliated medical foundations and contracted medical groups.

Research and Development: Sutter expenses research and development costs as incurred. Research and development expense, included in Operating expenses, was \$54 and \$57 for the years ended December 31, 2018 and 2017, respectively.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

Income Taxes: Sutter Health, the legal entity, and many affiliates have been determined to be exempt organizations by the Internal Revenue Service and the California Franchise Tax Board and generally are not subject to taxes on income. Certain activities of Sutter are subject to income taxes; however, such activities are not significant to the consolidated financial statements. With respect to its taxable activities, Sutter records income taxes using the liability method, under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax basis of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the periods that the deferred tax asset or liability is expected to be realized or settled.

Sutter recognizes the tax benefit from uncertain tax positions, only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The statute of limitations for tax years 2015 through 2017 remain open in U.S. tax jurisdictions in which Sutter and its affiliates are subject to taxation. Sutter recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2018 and 2017, there were no such uncertain tax positions.

Performance Indicator: “(Loss) income” and “(Loss) income attributable to Sutter Health”, as reflected in the Consolidated Statements of Operations and Changes in Net Assets, are performance indicators. The performance indicators include all changes in Net assets without donor restrictions, excluding Net assets released from restriction for equipment acquisition, Changes in net unrealized gains and losses on investments classified as other-than-trading, Pension-related changes other than net periodic pension cost, and Other changes.

Adoption of New Accounting Pronouncements: In August 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments help entities evaluate the accounting for implementation costs paid by a customer in a cloud computing arrangement by providing guidance for determining when the service contract includes a software license. Sutter is evaluating the impact of this guidance, which will be effective in 2021.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which enhances ASU No. 2016-02, *Leases (Topic 842)*. The guidance of these ASUs requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet and allows for an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements. The ASUs are effective January 1, 2019, and Sutter elected the practical expedient to initially apply the new leasing standard at the adoption date. Sutter is finalizing its analysis of certain key assumptions that will be utilized at the transition date, including the incremental borrowing rate. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases which will have a material impact on the Consolidated Balance Sheets and significant incremental disclosures in the Notes to Consolidated Financial Statements. The standard will not have a material adverse effect on Sutter's consolidated results of operations.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies and improves the scope and the accounting guidance for contributions received and made with the objective of reducing the existing diversity in practice. Sutter is evaluating the impact of this guidance, which will be effective in 2019.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Sutter has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which superseded virtually all revenue recognition guidance in U.S. GAAP. This guidance is intended to improve, converge, and replace existing revenue recognition guidance, including industry-specific guidance and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled to in an exchange of goods or services. Sutter adopted this guidance as of the January 1, 2018, effective date, using the full retrospective method of transition. The adoption of the new standard did not have an impact on recognition of Total operating revenues for any periods, but did result in expanded footnote disclosures.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

3. INVESTMENTS

Investments are held for the following uses:

	December 31,	
	2018	2017
Principal, interest and other reserves held in trust under bond indentures	\$ 14	\$ 14
Board-designated	289	170
Investments	5,680	5,641
	5,983	5,825
Less short-term investments	(5,000)	(5,052)
Non-current investments	\$ 983	\$ 773

4. FAIR VALUE MEASUREMENTS

Sutter accounts for certain assets at fair value. A fair value hierarchy for valuation inputs has been established to prioritize the valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets as of the measurement date.

Level 2: Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Pricing inputs are generally unobservable for the assets and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets. The fair values are therefore determined using factors that involve judgment and interpretations, including, but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, fund manager estimates and net asset valuations provided by the underlying private investment companies and/or their administrators. Sutter held no Level 3 financial instruments as of December 31, 2018 and 2017.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

The fair value of Sutter's assets measured on a recurring basis consists of the following:

	December 31, 2018		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Liquid investments			
Cash equivalents	\$ 108	\$ —	\$ 108
Equity securities			
U.S. equity	1,088	—	1,088
Foreign equity	464	—	464
Fixed income securities			
U.S. government	388	—	388
U.S. government agencies	—	3	3
U.S. state and local government	—	78	78
U.S. federal agency mortgage-backed	—	274	274
Foreign government	—	223	223
U.S. corporate	56	671	727
Foreign corporate	2	176	178
	\$ 2,106	\$ 1,425	\$ 3,531
Investments measured at net asset value			2,452
			<u>\$ 5,983</u>

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

	December 31, 2017		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Liquid investments			
Cash equivalents	\$ 261	\$ —	\$ 261
Equity securities			
U.S. equity	1,145	—	1,145
Foreign equity	629	—	629
Fixed income securities			
U.S. government	368	—	368
U.S. government agencies	—	39	39
U.S. state and local government	—	70	70
U.S. federal agency mortgage-backed	—	294	294
Foreign government	—	219	219
U.S. corporate	54	618	672
Foreign corporate	4	188	192
	\$ 2,461	\$ 1,428	\$ 3,889
Investments measured at net asset value			1,936
			<u>\$ 5,825</u>

There were no transfers to or from Levels 1 or 2 during the periods presented.

As of December 31, 2018 and 2017, the Level 2 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

U.S. government agencies securities: The fair value of investments in U.S. government agencies securities classified as Level 2 is primarily determined using consensus pricing methods of observable market-based data. Significant observable inputs include quotes, spreads, and data points for yield curves.

U.S. state and local government securities: The fair value of U.S. state and local government securities classified as Level 2 is determined using a market approach. The inputs include yield benchmark curves, prepayment speeds, and observable market data, such as institutional bids, dealer quotes, and two-sided markets.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

U.S. federal agency mortgage-backed securities: The fair value of U.S. federal agency mortgage-backed securities classified as Level 2 is primarily determined using matrices. These matrices utilize observable market data of bonds with similar features, prepayment speeds, credit ratings, and discounted cash flows. Additionally, observed market movements, tranche cash flows and benchmark yields are incorporated in the pricing models.

Foreign government and corporate securities: The fair value of investments in foreign government and corporate securities classified as Level 2 is primarily determined using consensus pricing methods of observable market-based data. Significant observable inputs include quotes, bid and ask yields, and issue-specific factors.

U.S. corporate securities: The fair value of investments in U.S. corporate securities classified as Level 2 is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include reported trades, dealer quotes, security-specific characteristics, and multiple sources of spread data points in developing yield curves.

Investments measured at net asset value: Certain investments that are measured using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The NAV amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

Certain of the investments are reported using a calculated NAV or its equivalent. These investments are not expected to be sold at amounts that are different from NAV. The following table and explanations identify attributes relating to the nature and risk of such investments:

December 31, 2018				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period (if currently eligible)
Commingled funds – U.S. equity securities	\$ 161	\$ –	Daily	1 day
Commingled funds – foreign equity securities	392	–	Monthly	5–30 days
Commingled funds – debt securities	290	–	Daily, Monthly	3–15 days
Commodity-linked funds	127	–	Daily	None
Hedge funds	999	–	Monthly, Quarterly	5–120 days
Private equity funds	217	307	None	None
Private equity real estate funds	266	237	None	None
Total	<u>\$ 2,452</u>	<u>\$ 544</u>		

December 31, 2017				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period (if currently eligible)
Commingled funds – U.S. equity securities	\$ 125	\$ –	Daily	1 day
Commingled funds – foreign equity securities	374	–	Monthly	5–30 days
Commingled funds – debt securities	265	–	Daily, Monthly	3–15 days
Commodity-linked funds	160	–	Monthly	5 days
Hedge funds	652	–	Monthly, Quarterly	5–197 days
Private equity funds	137	259	None	None
Private equity real estate funds	223	182	None	None
Total	<u>\$ 1,936</u>	<u>\$ 441</u>		

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

Commingled funds – U.S. and foreign equity securities: This class includes investments in commingled funds that invest primarily in U.S. or foreign equity securities and attempt to match the returns of specific equity indices. As of December 31, 2018, approximately 29% of this class is redeemable daily with a 1-day notice period. The remaining 71% of this class is redeemable monthly with a notice period of 5 to 30 days.

Commingled funds – debt securities: This class includes investments in commingled funds that invest primarily in foreign debt, of which the majority are traded in over-the-counter markets. As of December 31, 2018, approximately 24% of the value of this class is redeemable daily with a notice period of 3 days. The remaining 76% of this class is redeemable monthly with a 15-day notice period.

Commodity-linked funds: This class includes commodity-linked funds that pursue long-only fully collateralized commodity futures strategies to provide diversification and inflation protection. As of December 31, 2018, these funds are redeemable daily with no notice period.

Hedge funds: This class includes investments in hedge funds that expand the universe of potential investment approaches available by employing a variety of strategies and techniques within and across various asset classes. The primary objective for these funds is to balance returns while limiting volatility by allocating capital to external portfolio managers selected for expertise in one or more investment strategies which may include, but are not limited to, equity long/short, event driven, relative value, and directional. The following summarizes the redemption criteria for the hedge fund portfolio as of December 31, 2018:

% of Hedge Funds	Redemption Criteria	Notice Period
74%	Redeemable monthly	5–75 days
3%	Redeemable quarterly	45–90 days
10%	Limited to a 25% gate, redeemable quarterly	60–90 days
13%	Two-year rolling lock-ups periodically expiring through April 2020	120 days

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

Private equity funds: This class includes domestic and foreign private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other strategies, which may include land, water processing, and alternative energy. There is no provision for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at December 31, 2018, to be over the next 10 to 15 years.

Private equity real estate funds: This class includes domestic and foreign investments in real estate that are held in limited partnership funds, joint ventures, and other investments comprised of retail, office, industrial, and multi-family properties. There is no provision for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at December 31, 2018, to be over the next 2 to 13 years.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31,	
	2018	2017
Land improvements	\$ 195	\$ 177
Leasehold improvements	523	502
Buildings and improvements	7,228	6,834
Equipment	3,899	3,886
	11,845	11,399
Less amortization and accumulated depreciation	(6,544)	(6,248)
	5,301	5,151
Land	546	563
Construction-in-progress	2,346	2,240
	\$ 8,193	\$ 7,954

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

6. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	December 31,	
	2018	2017
Goodwill, net	\$ 148	\$ 152
Trust receivable	94	106
Reinsurance recoveries receivable	74	75
Non-current portion of pledges receivable	22	24
Other	63	77
	\$ 401	\$ 434

7. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	December 31,	
	2018	2017
Non-taxable revenue bonds under the Sutter Health Master Indenture of Trust, fixed interest at 1.0% to 5.5%, through 2052 (includes net unamortized premiums and discounts of \$336 and \$297 and debt issuance costs of (\$21) and (\$22) at December 31, 2018 and 2017, respectively)	\$ 3,864	\$ 3,881
Taxable revenue bonds under the Sutter Health Master Indenture of Trust, fixed interest at 2.29% to 4.09%, through 2048 (includes unamortized discount of (\$4) and \$0 and debt issuance costs of (\$4) and \$0 at December 31, 2018 and 2017, respectively)	779	200
Various collateralized and unsecured obligations	32	33
Obligations under capital leases	8	8
	4,683	4,122
Less current portion	(57)	(150)
	\$ 4,626	\$ 3,972

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

7. LONG-TERM OBLIGATIONS (continued)

The aggregate estimated fair market value of Sutter's revenue bonds at December 31, 2018 and 2017, of \$4,625 and \$4,220, respectively, was established using discounted cash flow analyses based on (i) the current market yield to maturity for similar types of publicly traded debt issues, and (ii) Sutter's current incremental borrowing rates for all other debt instruments. Based on the inputs and valuation techniques, the fair value of long-term debt is classified as Level 2 within the fair value hierarchy.

The central financing vehicle of credit for Sutter is the Obligated Group. Sutter Health, the legal entity, and certain affiliates are members of the Obligated Group, with their assets being subject to the indebtedness of the Obligated Group. Although the Obligated Group is not a legal entity, members of the Obligated Group are jointly and severally liable for repayment of the tax-exempt obligations issued through the California Health Facilities Financing Authority (CHFFA) and California Statewide Communities Development Authority (CSCDA) and taxable obligations issued by Sutter. The related financing documents and various other debt agreements contain certain restrictive covenants requiring compliance by all Obligated Group members, including a pledge of gross revenue.

In April 2018, \$619 of Series 2018A CHFFA tax-exempt revenue bonds were issued at a premium of \$81 on behalf of Sutter. The proceeds of the 2018A bonds were used to reimburse prior capital expenditures.

In April 2018, \$688 of Series 2018A Sutter Health taxable bonds were issued at a discount of \$4 by Sutter to advance refund \$237 of Series 2011A CSCDA tax-exempt revenue bonds and \$396 of Series 2011B CHFFA tax-exempt revenue bonds (collectively, the "2018 Refunded Bonds"). The proceeds of Series 2018A taxable bonds, together with the release of certain funds related to the 2018 Refunded Bonds, were placed in escrow funds pursuant to the related escrow agreements with the related bond trustee. The funds held in each escrow fund will be sufficient to pay the regularly scheduled interest payments when due, and 100% of the principal amount of the applicable 2018 Refunded Bonds at the applicable redemption date. The 2018 Refunded Bonds were legally defeased and derecognized at the date of refunding, with redemptions scheduled to occur in August 2020. These refunds resulted in a loss on extinguishment of debt of \$54.

In July 2017, \$434 of Series 2017A CHFFA tax-exempt revenue bonds ("Series 2017A Bonds") were issued at a premium of \$62 on behalf of Sutter to advance refund \$119 of Series 2008A CHFFA tax-exempt revenue bonds, \$300 of Series 2008BC CSCDA tax-exempt revenue bonds and \$69 of Series 2004CD CSCDA tax-exempt revenue bonds

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

7. LONG-TERM OBLIGATIONS (continued)

(collectively, the “2017 Refunded Bonds”). The proceeds of Series 2017A Bonds, together with the release of certain funds related to the 2017 Refunded Bonds, were placed in escrow funds pursuant to the related escrow agreements with the related bond trustee. The funds held in each escrow fund were sufficient to pay the regularly scheduled interest payments when due, and 100% of the principal amount of the applicable 2017 Refunded Bonds at the applicable redemption date. The 2017 Refunded Bonds were legally defeased and derecognized at the date of refunding, with redemptions that occurred in May and August 2018. These refunds resulted in a loss on extinguishment of debt of \$19.

In August 2016, \$749 of Series 2016B CHFFA tax-exempt revenue bonds (“Series 2016B Bonds”) were issued on behalf of Sutter to refund certain bonds. The proceeds of the Series 2016B Bonds, together with the release of certain funds related to the refunded bonds were placed in escrow funds pursuant to the related escrow agreements with the related bond trustee. The associated debt of \$143 related to the portion of the refunded bonds consisting of the Series 2005BC and the Series 2003AB CSCDA tax-exempt bonds was included in the current portion of long-term obligations as of December 31, 2016, and was legally defeased on the date of the refunding and derecognized at the dates of redemption, which occurred in May and August 2017, respectively.

Aggregate principal payments of long-term obligations, excluding capital leases, various collateralized and unsecured obligations, net unamortized premiums, and issuance costs, as of December 31, 2018, are as follows:

2019	\$	50
2020		49
2021		49
2022		52
2023		54
Thereafter		4,082
	\$	<u>4,336</u>

Sutter paid interest of \$156 and \$150 for the years ended December 31, 2018 and 2017, respectively.

Sutter has a \$400 revolving line of credit with a syndicate of banks, with \$400 available for borrowing as of December 31, 2018.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

8. LEASES

Sutter leases various buildings, office space and equipment. The leases expire at various times and contain certain contingent rental provisions, guarantees and various renewal options. These leases are classified as either capital leases, which were not material as of December 31, 2018 and 2017, or operating leases, based on the terms of the respective agreements.

Future minimum payments, by year and in the aggregate, under noncancellable operating leases with terms of one year or more at inception consist of the following as of December 31, 2018:

	Lease Payments	Sublease Receipts	Net Lease Payments
2019	\$ 154	\$ 1	\$ 153
2020	132	1	131
2021	120	—	120
2022	106	—	106
2023	81	—	81
Thereafter	415	—	415
	<u>\$ 1,008</u>	<u>\$ 2</u>	<u>\$ 1,006</u>

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

9. NET ASSETS AND CONTRIBUTIONS

Sutter receives donations from generous individuals and organizations that support certain programs and services. Donations included in Net assets with donor restrictions were maintained for the following purposes:

	December 31,	
	2018	2017
Subject to expenditure for specified purpose:		
Capital projects and medical equipment	\$ 44	\$ 52
Research and education	85	88
Operations	28	30
Operations or capital projects	154	138
	311	308
Subject to passage of time	20	21
Subject to donor restrictions in conjunction with		
Sutter spending policy:		
Investment in perpetuity – endowment	138	156
	\$ 469	\$ 485

From time to time, a Sutter board will designate certain unrestricted funds to be used in the future for specific projects. Board-designated funds included in Net assets without donor restrictions were maintained for the following purposes:

	December 31,	
	2018	2017
Capital projects and medical equipment	\$ 143	\$ 113
Research and education	27	2
Operations or capital projects	119	55
	\$ 289	\$ 170

Sutter reports individuals' and organizations' unconditional promises to give cash or other assets at fair value at the date Sutter receives the promises. Sutter reports conditional promises to give and conditional indications of intentions to give at fair value when the conditions are met. Therefore, Sutter does not recognize any revenue or receivable at the time a conditional promise or indication of intent is received. Sutter's conditional promises

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

9. NET ASSETS AND CONTRIBUTIONS (continued)

or indication of intent received were \$153 and \$103 for the years ended December 31, 2018 and 2017, respectively. These gifts will support clinical programs and technology such as cardiology and innovation.

As of December 31, 2018, Sutter's pledges receivable, which is included in Other receivables and Other non-current assets, consisted of the following unconditional promises to give:

Pledges due in 2019	\$	16
Pledges due 2020–2023		19
Pledges due after 2023		9
Less allowance for uncollectible pledges		(2)
Less discount on pledges receivable		(6)
	\$	<u>36</u>

Endowments: Sutter follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA eliminates the concept of “historic dollar value” and allows an institution to spend or accumulate as the board determines is prudent for the uses, benefits, purposes, and duration of the endowment fund unless the gift instrument states a particular spending rate or formula. California's version of UPMIFA also includes a rebuttable provision that spending greater than 7% of the average fair market value, calculated at least quarterly over a minimal period of three years, is presumed to be imprudent.

In accordance with UPMIFA, Sutter considers the following factors when appropriating or accumulating an endowment fund: (i) general economic conditions, (ii) effects of inflation and deflation, (iii) the purposes of the institution and the endowment fund, (iv) expected total return from income and appreciation of investments, (v) Sutter's other resources, (vi) the duration and preservation of the endowment fund, and (vii) Sutter's investment policies.

If the fair market value of assets associated with individual endowment funds falls below the corpus, Sutter management assesses facts and circumstances to determine whether to suspend appropriation activities until the corpus has recovered or to continue to withdraw funds in compliance with UPMIFA in order to fund critical initiatives. Deficiencies of this nature reported in Net assets with donor restrictions were a result of unfavorable investment market fluctuations and not material as of December 31, 2018 and 2017.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

9. NET ASSETS AND CONTRIBUTIONS (continued)

Following UPMIFA, Sutter's investment and spending policies for endowment assets attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, Sutter relies on a balanced investment strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Sutter targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The endowment net asset composition by type of fund consists of the following:

	December 31, 2018		
	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Donor-restricted endowment funds	\$ —	\$ 193	\$ 193
Board-designated funds	102	—	102
Total funds	<u>\$ 102</u>	<u>\$ 193</u>	<u>\$ 295</u>
	December 31, 2017		
	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Donor-restricted endowment funds	\$ —	\$ 213	\$ 213
Board-designated funds	83	—	83
Total funds	<u>\$ 83</u>	<u>\$ 213</u>	<u>\$ 296</u>

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

9. NET ASSETS AND CONTRIBUTIONS (continued)

The changes in endowment net assets are as follows:

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Balance at December 31, 2016	\$ 74	\$ 178	\$ 252
Investment return, net	11	30	41
Contributions	—	11	11
Appropriation of endowment assets for expenditure	(1)	(5)	(6)
Other	(1)	(1)	(2)
Balance at December 31, 2017	83	213	296
Investment return, net	(5)	5	—
Contributions	—	1	1
Appropriation of endowment assets for expenditure	(4)	(3)	(7)
Other	28	(23)	5
Balance at December 31, 2018	<u>\$ 102</u>	<u>\$ 193</u>	<u>\$ 295</u>

10. OPERATING REVENUES

Sutter records revenue in four financial statement categories: Patient service revenues, Premium revenues, Contributions, and Other. Performance obligations are identified based on the nature of the services provided.

Sutter has elected the practical expedient allowed under FASB ASC 606-10-32-18, and does not adjust the promised amount of consideration for the effects of a significant financing component, due to Sutter's expectation that the period between the time the service is provided and the receipt of payment will be one year or less. However, Sutter does, in certain instances, enter into payment agreements that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract. Additionally, Sutter has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), because all of its performance obligations relate to contracts with a duration of less than one year. Therefore, Sutter is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

10. OPERATING REVENUES (continued)

Patient service revenues: Sutter's Patient service revenues are reported at the amount that reflects the consideration to which Sutter expects to be paid for providing patient care. These amounts are due from patients and third-party payers, including health insurers and government programs. Patients who meet Sutter's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Generally, Sutter bills the patients and third-party payers after the services are performed.

Patient service revenues are recognized as performance obligations are satisfied. Inpatient services are performance obligations satisfied over time and revenue is recognized based on actual charges incurred in relation to total expected or actual charges. Unsatisfied or partially unsatisfied performance obligations relate to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when goods or services are provided, and Sutter does not believe it is required to provide additional goods or services.

Sutter uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payer classes for inpatient and outpatient revenue. Based on historical collection trends, Sutter believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax exemption. Sutter operates an Ethics and Compliance Program, which reviews compliance with government health care program requirements and investigates allegations of non-compliance received from internal and external sources. From time to time, findings may result in repayment of monies previously received from government and other third-party payers and/or disclosure of such overpayments, including, but not limited to, disclosure to the Centers for Medicare and Medicaid Services

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

10. OPERATING REVENUES (continued)

(CMS) and its contracted agents, or the Office of Inspector General, Department of Health and Human Services. As a result, there is at least a reasonable possibility that the recorded estimates may change by a material amount in the near term.

The majority of Sutter's services are provided to patients with third-party coverage and Sutter has agreements with third-party payers that provide for payments to Sutter at contractually adjusted amounts. Patient service revenues are estimated based on the terms of the contractual agreement with the payer, Sutter's historical settlement activity and other information. Settlements with third-party payers for retroactive adjustments due to audits, reviews or investigations are considered variable consideration, and are included in the determination of Patient service revenues when information becomes available. Additional revenues arising from a change in the estimate of transaction price concessions for performance obligations satisfied in prior years were \$66 and \$82 for the years ended December 31, 2018 and 2017, respectively.

Payment arrangements are as follows:

Medicare: Inpatient acute care services and outpatient services provided to Medicare program beneficiaries are paid at prospectively determined rates per diagnosis. Sutter is paid for cost-reimbursable items at a tentative rate. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. Amounts received from the Medicare programs are subject to audit and final settlement by a Medicare Administrative Contractor after submission of annual cost reports. Sutter's Medicare cost reports have been audited generally through December 31, 2014. The estimated net settlement payables are \$26 and \$21 and adjustments from the finalization of prior-year cost reports were immaterial at December 31, 2018 and 2017, respectively.

Medi-Cal: Inpatient and outpatient services provided to Medi-Cal program beneficiaries are paid either under contracted rates or cost-reimbursable items at a tentative rate. Services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member. Amounts received from Medi-Cal programs are subject to audit and final settlement by the California Department of Health Care Services after submission of annual cost reports. Sutter's Medi-Cal cost reports have been audited generally through December 31, 2014. The estimated net settlement payables and adjustments from the finalization of prior-year cost reports were immaterial in 2018 and 2017.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

10. OPERATING REVENUES (continued)

Commercial: Inpatient and outpatient services provided to patients covered under commercial insurance policies are paid using a variety of payment methodologies based on contractual agreements. The transaction price for commercial payers is reduced by explicit contractual adjustments, and implicit price concessions based on collection history with this portfolio of patients.

Other: Inpatient and outpatient services provided to patients, not covered by third-party payers, are paid based on Sutter's policies and the patient's ability to pay. Sutter reduces the transaction price by implicit price concessions to uninsured patients and patients with uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Sutter expects to collect based on its collection history with this portfolio of patients. Subsequent changes to the estimates are considered variable consideration and are included in Patient service revenues when information becomes available.

As part of its Patient service revenues analysis, Sutter examines the fluctuations in payer, geographical area, and entity type as each factor represents a varying degree of uncertainty regarding the nature, timing, and extent of payments.

The composition of Patient service revenues by payer is as follows:

	Year ended December 31,	
	2018	2017
Medicare	\$ 2,797	\$ 2,630
Medi-Cal	1,602	1,713
Commercial	6,331	6,298
Other	227	187
	<u>\$ 10,957</u>	<u>\$ 10,828</u>

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

10. OPERATING REVENUES (continued)

The composition of Patient service revenues based on Sutter's area of operations and entity type are as follows:

Year ended December 31, 2018				
	Sutter Health Bay Area	Sutter Health Valley Area	Other	Total
Acute care	\$ 3,970	\$ 3,018	\$ 112	\$ 7,100
Medical foundation	2,351	1,089	—	3,440
Other	117	29	550	696
Eliminations	(89)	(80)	(110)	(279)
	<u>\$ 6,349</u>	<u>\$ 4,056</u>	<u>\$ 552</u>	<u>\$ 10,957</u>

Year ended December 31, 2017				
	Sutter Health Bay Area	Sutter Health Valley Area	Other	Total
Acute care	\$ 4,072	\$ 3,010	\$ 102	\$ 7,184
Medical foundation	2,183	1,020	—	3,203
Other	112	28	510	650
Eliminations	(78)	(75)	(56)	(209)
	<u>\$ 6,289</u>	<u>\$ 3,983</u>	<u>\$ 556</u>	<u>\$ 10,828</u>

The State of California enacted legislation for a hospital fee program to fund certain Medi-Cal coverage expansions. The program charges certain hospitals a quality assurance fee that is used to obtain federal matching funds for Medi-Cal, with the proceeds redistributed as supplemental payments to California hospitals that treat Medi-Cal patients. There are two hospital fee programs that had activity in 2018 and 2017: a 36-month hospital fee program covering the period from January 1, 2014 through December 31, 2016, and a 30-month hospital fee program covering the period from January 1, 2017 through June 30, 2019. Supplemental payments met all criteria related to revenue recognition, and the quality assurance fees are both probable and estimable. Accordingly, all related supplemental payments have been recognized as revenue and related quality assurance fees recognized as expense as of December 31, 2018 and December 31, 2017.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

10. OPERATING REVENUES (continued)

Patient service revenues and Other expenses include amounts for the hospital fee program as follows:

	Year ended December 31,	
	2018	2017
Hospital fee program revenue	\$ 577	\$ 821
Hospital fee program expense	(305)	(389)
Income from operations from hospital fee program	<u>\$ 272</u>	<u>\$ 432</u>
	December 31,	
	2018	2017
Other receivables	\$ 561	\$ 646
Accounts payable	\$ 219	\$ 320

Premium revenues: Sutter has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and members of individual and family plans and subscribing employers for small and large cap coverage. The basis for payment to Sutter, under these agreements, includes capitated arrangements, prospectively determined rates per diagnosis, prospectively determined daily rates, rates by demographics and rates by a number of factors including experience. The transaction price may be reduced by discounts, reinsurance premiums, and implicit price concessions based on collection history. Other adjustments may include prior year settlements, stop loss recoveries, ceded premiums and risk adjustment factors. Performance obligations are satisfied over the passage of time by standing ready to provide services.

Settlements with third-party payers for retroactive adjustments are considered variable consideration and are included in the determination of Premium revenues when information becomes available. Adjustments from the finalization of prior-year settlements resulted in an increase to Premium revenues of \$2 and a decrease of \$32 for the years ended December 31, 2018 and 2017, respectively. Adjustments arising from a change in the transaction price were not significant in 2018 and 2017.

As part of its Premium revenues analysis, Sutter examines the fluctuations in geographical area and entity type, as each factor represents a varying degree of uncertainty regarding the nature, timing and extent of payments. Sutter's premium revenue is reported at an amount that reflects the consideration to which Sutter expects to be paid.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

10. OPERATING REVENUES (continued)

The composition of Premium revenues based on Sutter's area of operations and entity type is as follows:

Year ended December 31, 2018				
	Sutter Health Bay Area	Sutter Health Valley Area	Other	Total
Acute care	\$ 191	\$ 356	\$ –	\$ 547
Medical foundation	328	341	–	669
Insurance	–	–	429	429
Other	–	29	89	118
Eliminations	(1)	(4)	(375)	(380)
	<u>\$ 518</u>	<u>\$ 722</u>	<u>\$ 143</u>	<u>\$ 1,383</u>

Year ended December 31, 2017				
	Sutter Health Bay Area	Sutter Health Valley Area	Other	Total
Acute care	\$ 179	\$ 313	\$ 1	\$ 493
Medical foundation	309	316	–	625
Insurance	–	–	320	320
Other	–	27	70	97
Eliminations	(1)	(5)	(309)	(315)
	<u>\$ 487</u>	<u>\$ 651</u>	<u>\$ 82</u>	<u>\$ 1,220</u>

Other revenues: Sutter has additional revenue streams from tuition, health professionals, rental properties and parking. Revenue is recognized when obligations under the terms of the contract are satisfied. Revenues from these services are measured as the amount of consideration Sutter expects to receive for those services.

11. COMMUNITY BENEFIT EXPENSE

Services for the poor and underserved include traditional charity care, unpaid costs of public programs treating Medi-Cal, county, and indigent beneficiaries, other services for the poor and underserved, and cash donations towards programs and services for the underserved. Charity care covers health care services provided to persons who meet certain criteria and cannot afford to pay. Sutter provided charity care services to patients at an estimated cost of \$89 and \$65 for 2018 and 2017, respectively. Estimated costs are based on a ratio of costs to charges.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

11. COMMUNITY BENEFIT EXPENSE (continued)

Benefits for the broader community include costs of providing the following services: health screenings and other health-related services, training health professionals, educating the community with various seminars and classes, the cost of performing medical research, and the costs associated with providing free clinics and community services. Benefits for the broader community also include contributions Sutter makes to community agencies to fund charitable activities.

The following is a summary of Sutter's estimated costs of providing services to the poor and broader community for the year ended December 31, 2018 (unaudited):

Services for the poor and underserved

Traditional charity care	\$	89
Unpaid costs of public programs:		
Medi-Cal		435
Other public programs		43
Other benefits for the poor and underserved		58
Total services for the poor and underserved		<u>625</u>

Benefits for the broader community

Nonbilled services		37
Education and research		54
Cash and in-kind donations		15
Other community benefits		3
Total benefits for the broader community		<u>109</u>
	\$	<u><u>734</u></u>

12. POSTRETIREMENT BENEFITS

Sutter sponsors and participates in various employee benefit plans, including a noncontributory defined benefit plan (the "Retirement Plan"), a noncontributory defined contribution plan, and several contributory defined contribution plans. In addition, certain affiliates participate in multiemployer defined benefit retirement plans. Sutter's total retirement benefit expense was \$291 and \$319 in 2018 and 2017, respectively.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

Sutter's measurement date for plan assets, pension obligations and net periodic pension cost associated with the Retirement Plan is December 31. The changes in benefit obligations and plan assets for the Retirement Plan are as follows:

	Year ended December 31,	
	2018	2017
Projected benefit obligation at beginning of year	\$ 4,493	\$ 3,825
Service cost	276	242
Interest cost	174	170
Actuarial (gain) loss	(199)	400
Benefits paid	(162)	(144)
Projected benefit obligation at measurement date	<u>\$ 4,582</u>	<u>\$ 4,493</u>
Fair value of plan assets at beginning of year	\$ 4,134	\$ 3,460
Actual (loss) gain on plan assets	(239)	673
Employer contributions	250	145
Benefits paid	(162)	(144)
Fair value of plan assets at measurement date	<u>\$ 3,983</u>	<u>\$ 4,134</u>
Net accrued benefit cost at end of year	<u>\$ (599)</u>	<u>\$ (359)</u>

The accumulated benefit obligation for the Retirement Plan was \$3,990 and \$3,880 as of December 31, 2018 and 2017, respectively.

The actuarial gain of \$199 for the year ended December 31, 2018, was primarily due to the increase in discount rate of 4.3% in 2018 from 3.7% in 2017. This was offset by the cash balance interest crediting rate increase of 3.4% in 2018 from 2.8% in 2017 and changes in census data that differed from expectations. The actuarial loss of \$400 for the year ended December 31, 2017, was primarily due to the decrease in discount rate of 3.7% in 2017 from 4.3% in 2016. This was offset by changes in census data and rate assumptions that differed from expectations.

Unrecognized actuarial losses of \$1,263 and \$965 are included in Controlling net assets without donor restrictions at December 31, 2018 and 2017, respectively.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

The benefits expected to be paid from the Retirement Plan in each of the next five years, and in the aggregate for the next five years, are as follows:

2019	\$	162
2020		178
2021		200
2022		217
2023		236
2024–2028		1,432
	\$	<u>2,425</u>

The actuarial assumptions used by the Retirement Plan are as follows:

	December 31,	
	2018	2017
Weighted-average discount rates for calculating pension expense	3.7%	4.3%
Weighted-average discount rates for calculating projected benefit obligation	4.3%	3.7%
Weighted-average rates of compensation increase for calculating pension expense	4.0%	4.0%
Weighted-average rates of compensation increase for calculating projected benefit obligation	4.0%	4.0%
Weighted-average interest crediting rates for calculating projected benefit expense	2.8%	2.9%
Weighted-average interest crediting rates for calculating pension obligation	3.4%	2.8%
Expected long-term rates of return on plan assets for calculating pension expense	7.5%	7.6%

As of December 31, 2018 and 2017, the healthy mortality assumption reflected the RP-2014 table (adjusted back to 2006). As of December 31, 2018, the mortality projection scale was updated to the MP-2018, with adjustments to the long-term rate of improvement at 0.75%, grading down linearly to 0.00% from age 85 to 115 and a 10-year convergence period for age and 20-year for cohort from 2014. In contrast, as of December 31, 2017, the mortality projection scale was MP-2017, with adjustments to the long-term rate of improvement at 0.75%, grading down linearly to 0.00% from age 85 to 95 and a 10-year convergence period for age and 20-year for cohort from 2013.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

The components of the Retirement Plan's net periodic benefit cost are as follows:

	Year ended December 31,	
	2018	2017
Service cost	\$ 276	\$ 242
Interest cost	174	170
Expected return on plan assets	(303)	(258)
Amortization of actuarial loss	45	66
	<u>\$ 192</u>	<u>\$ 220</u>

In addition to the Retirement Plan, Sutter also has noncontributory postretirement health benefit plans (the "Health Plans"). Sutter's measurement date for plan assets, retiree medical obligations and net periodic retiree medical cost associated with the Health Plans is December 31. The changes in benefit obligations for the Health Plans are as follows:

	Year ended December 31,	
	2018	2017
Projected benefit obligation at beginning of year	\$ 279	\$ 253
Service cost	13	11
Interest cost	10	10
Actuarial (gain) loss	(28)	16
Other change in benefit obligation	3	—
Benefits paid	(12)	(11)
Projected benefit obligation at measurement date	<u>\$ 265</u>	<u>\$ 279</u>
Fair value of plan assets at beginning of year	\$ 227	\$ 175
Actual (loss) gain on plan assets	(13)	40
Employer contributions	10	23
Benefits paid	(12)	(11)
Fair value of plan assets at measurement date	<u>\$ 212</u>	<u>\$ 227</u>
Net accrued benefit cost at end of year	<u>\$ (53)</u>	<u>\$ (52)</u>

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

The actuarial gain of \$28 for the year ended December 31, 2018 was primarily due to discount rate increases in ranges of 4.2% to 4.3% in 2018 from ranges of 3.6% to 3.7% in 2017 and updated drawdown assumptions. The actuarial loss of \$16 for the year ended December 31, 2017 was primarily due to decreases in discount rate ranges of 3.6% to 3.7% in 2017 from ranges of 3.9% to 4.2% in 2016 and by changes in termination rate assumptions.

Included in Controlling net assets without donor restrictions at December 31, 2018 and 2017, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of \$6 and \$5, respectively, and unrecognized actuarial loss of \$9 and \$7, respectively.

The benefits expected to be paid from the Health Plans in each of the next five years, and in the aggregate for the next five years, are as follows:

2019	\$	14
2020		17
2021		19
2022		21
2023		22
2024–2028		121
	\$	<u>214</u>

The actuarial assumptions used by the Health Plans are as follows:

	December 31,	
	2018	2017
Weighted-average discount rates for calculating retiree medical expense	3.6%–3.7%	3.9%–4.2%
Weighted-average discount rates for calculating projected benefit obligation	4.2%–4.3%	3.6%–3.7%
Expected long-term rates of return on plan assets for calculating retiree medical expense	7.5%	7.6%

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

The components of the Health Plans' net periodic benefit cost are as follows:

	Year ended December 31,	
	2018	2017
Service cost	\$ 13	\$ 11
Interest cost	10	10
Expected return on plan assets	(17)	(14)
Amortization of prior service cost	1	1
	<u>\$ 7</u>	<u>\$ 8</u>

Sutter's projected medical cost trend rate related to the Health Plans for 2019 is 6.0%. The assumed medical cost trend rate is expected to gradually decrease in subsequent years to 4.8% in 2026 and thereafter.

The Retirement Benefits Investment Committee oversees the investments and investment policy of the plans. Management of the assets is governed by the application of modern portfolio theory, resulting in asset class diversification and mean-variance optimization. Sutter's investment strategy is to balance the liquidity needs of the plans with the long-term return goals necessary to satisfy future obligations.

The target asset allocation seeks to reduce volatility while capturing the equity premium from the capital markets over the long term and maintaining security of principal to meet near-term expenses and obligations. The target asset allocation at December 31, 2018, by major asset category, is as follows:

Major Asset Category	Target Allocation
Equity securities	50%
Fixed income securities	15%
Other investments – alternative	25%
Real estate investments	10%
Total	<u>100%</u>

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

Equity securities are comprised of U.S. and foreign equity securities, common and collective trusts, and commingled funds. The equity securities' target asset allocation of 50% is further comprised of 20% domestic large capitalization, 5% domestic small capitalization and 25% international/global.

The portfolio return assumption of 7.5% and 7.6% for 2018 and 2017, respectively, was based on the weighted-average return of comparative market indices for the major asset classes represented in the portfolio, net of administrative expenses.

A fair value hierarchy has been established, with three levels that prioritize the valuation inputs into each level (see Note 4). The fair value and NAV of the Retirement Plan's and the Health Plans' assets measured on a recurring basis consist of the following:

	December 31, 2018			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value (NAV)	Total
Liquid investments:				
Cash equivalents	\$ 6	\$ —	\$ 87	\$ 93
Equity securities:				
U.S. equity	873	—	—	873
Foreign equity	517	—	—	517
Common collective trusts	—	—	365	365
Commingled funds	—	—	422	422
Fixed income securities:				
U.S. government and agencies	88	3	—	91
U.S. federal agency mortgage-backed	—	115	—	115
Foreign government	—	113	—	113
U.S. corporate	—	137	—	137
Foreign corporate	—	50	—	50
Common collective trusts and commingled funds	—	—	103	103
Other investments:				
Private equity funds	—	—	264	264
Private equity real estate funds	—	—	335	335
Commodity-linked funds	—	—	96	96
Commingled funds	—	—	10	10
Hedge funds	—	—	605	605
Accrued income	6	—	—	6
Total Retirement Plan and Health Plan assets	\$ 1,490	\$ 418	\$ 2,287	\$ 4,195

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

	December 31, 2017			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value (NAV)	Total
Liquid investments:				
Cash equivalents	\$ 26	\$ —	\$ 51	\$ 77
Equity securities:				
U.S. equity	1,004	—	—	1,004
Foreign equity	660	—	—	660
Common collective trusts	—	—	465	465
Commingled funds	—	—	383	383
Fixed income securities:				
U.S. government and agencies	100	11	—	111
U.S. federal agency mortgage-backed	—	109	—	109
Foreign government	—	128	—	128
U.S. corporate	—	123	—	123
Foreign corporate	—	40	—	40
Common collective trusts and commingled funds	—	—	113	113
Other investments:				
Private equity funds	—	—	261	261
Private equity real estate funds	—	—	313	313
Commodity-linked funds	17	—	158	175
Commingled funds	—	—	10	10
Hedge funds	—	—	384	384
Accrued income	5	—	—	5
Total Retirement Plan and Health Plan assets	\$ 1,812	\$ 411	\$ 2,138	\$ 4,361

There were no transfers to or from Levels 1 or 2 during the years presented.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

The multiemployer defined benefit retirement plans are described below:

Plan	Pension Plan Employer Identification Number/Plan Number	Pension Protection Act Zone Status		Funding Improvement/ Rehabilitation Plan
		As of January 1, 2018	2017	
Retirement Plan for Hospital Employees	94-2995676/001	Green	Green	N/A
I.U.O.E. Stationary Engineers Local 39 Pension Plan	94-6118939/001	Green	Green	Implemented

Pension Protection Act Zone Status (from worst to best):

Critical Status	Red
Seriously Endangered	Orange
Endangered	Yellow
None of the above	Green

Plan	Contributions			Surcharge Imposed (during 2018)	Collective Bargaining Agreement Expiration Date	Contributions to Plan Exceeded More Than 5% of Total Contributions
	2019 (expected)	2018	2017			
Retirement Plan for Hospital Employees	\$ 13	\$ 13	\$ 16	No	July 15, 2021, or prior	2018 and 2017
I.U.O.E. Stationary Engineers Local 39 Pension Plan	Not Available	4	4	No	January 31, 2022, or prior	2018 and 2017
Total contributions	\$ 17	\$ 20				

For the two participating affiliates in the Retirement Plan for Hospital Employees, participant benefits were frozen for the non-contractual employees on January 1, 2011, and for the contractual employees on January 1, 2014. Both affiliates will continue to make periodic contributions as needed for eligible participants.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

There are no minimum contributions required for future periods by the collective bargaining agreements, statutory obligations, or other contractual obligations for both plans.

The risks of participating in multiemployer plans are different from single-employer plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (iii) if the affiliates choose to stop participating in the multiemployer plan, the affiliates may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. See Note 14 for additional information regarding the Retirement Plan for Hospital Employees.

Sutter also maintains various defined contribution plans for eligible employees. Sutter's contributions to such plans were \$75 and \$71 in 2018 and 2017, respectively.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

13. FUNCTIONAL CLASSIFICATION OF EXPENSES

Sutter groups like expenses into financial statement lines and classifies programmatic expenses by business line. Expenses that are attributable to one or more programs or supporting functions are allocated based on operating expenses, square footage, and other criteria.

The following is a functional classification of Sutter's expenses:

	Year ended December 31, 2018							
	Program				General and Administrative		Total	
	Medical							
	Acute care	Foundation	Other	Eliminations				
Salaries and employee benefits	\$ 3,472	\$ 1,068	\$ 865	\$ (274)	\$ 721	\$	5,852	
Purchased services	1,813	2,374	490	(1,620)	315		3,372	
Supplies	998	344	152	(20)	18		1,492	
Depreciation and amortization	473	146	105	(109)	66		681	
Rentals and leases	52	95	52	(35)	12		176	
Interest	97	27	1	(10)	—		115	
Insurance	56	8	13	(65)	3		15	
Other	439	59	617	(371)	49		793	
Total operating expenses	\$ 7,400	\$ 4,121	\$ 2,295	\$ (2,504)	\$ 1,184	\$	12,496	

	Year ended December 31, 2017						
	Program				General and Administrative		Total
	Medical						
	Acute care	Foundation	Other	Eliminations			
Salaries and employee benefits	\$ 3,305	\$ 971	\$ 912	\$ (252)	\$ 691	\$	5,627
Purchased services	1,813	2,229	407	(1,492)	289		3,246
Supplies	949	304	143	(17)	12		1,391
Depreciation and amortization	442	157	97	(99)	58		655
Rentals and leases	55	90	53	(35)	13		176
Interest	76	30	1	(2)	—		105
Insurance	46	6	10	(50)	3		15
Other	537	75	510	(263)	44		903
Total operating expenses	\$ 7,223	\$ 3,862	\$ 2,133	\$ (2,210)	\$ 1,110	\$	12,118

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

14. CONTINGENCIES AND COMMITMENTS

Contingencies: From time to time, Sutter receives, and responds to, investigations and requests concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations by health care providers from federal and state regulatory agencies, including, but not limited to, the Centers for Medicare and Medicaid (CMS), the U.S. Department of Justice (DOJ), the California Attorney General, and the California Department of Public Health. Sutter is also involved in litigation such as medical malpractice and contractual disputes, as both plaintiff and defendant, and other routine labor matters, class-action complaints, tax examinations, security events resulting in potential privacy incidents, internal compliance activities (including those discussed in Operating Revenues) and regulatory investigations and examinations arising in the ordinary course of business. Based on Sutter's assessment of the matters, the uncertainty of litigation, and the preliminary stages of many of the matters, Sutter cannot estimate the reasonable possible loss or range of loss that may result from these matters, if any. However, there can be no assurance that the resolution of any of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations and following is a discussion of matters of note.

As a part of its compliance activities, Sutter performed an internal compliance audit related to certain physician arrangements of certain affiliates. Sutter elected to make voluntary self-disclosures to the federal government (in accordance with federal self-disclosure guidelines) related to certain physician financial arrangements that may constitute potential violations of federal regulatory standards. These disclosures were made in October and November 2010, November 2011, January 2014, and October 2014. A supplement to the disclosure was later submitted in October 2016. The resolution of the voluntary self-disclosures was placed on hold in February 2015 when Sutter received notification of a regulatory investigation regarding certain physician financial arrangements, spanning a timeframe beginning in January 2006 through 2018. Due to the overlapping nature of the voluntary self-disclosures and investigation, discussions of these matters were consolidated. These matters could result in payments to the government and/or the imposition of additional compliance requirements. At this time, management cannot estimate the amounts of any payments or settlements that may result, or whether additional, related matters may arise. There can be no assurance that the resolution of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

14. CONTINGENCIES AND COMMITMENTS (continued)

In December 2012, a plaintiff filed a civil class action lawsuit against Sutter Health and certain affiliates, alleging violations of Federal antitrust law arising out of, among other things, Sutter Health and those certain affiliates' arrangements with health plans. Following multiple amended complaints, the court dismissed the lawsuit with prejudice, entering judgment in favor of Sutter Health and the related affiliates in June 2014. Plaintiff appealed to the Ninth Circuit and the Ninth Circuit overturned the dismissal, returning the case back to the court. The court heard Sutter Health and the related affiliates' summary judgment motion on January 24, 2019, and the plaintiff's motion for class certification on January 29, 2019. If the court denies the summary judgment motion and certifies the class, the lawsuit will be allowed to proceed as a class action lawsuit. The certification of the class would be a procedural decision and no decision will have been made on the substantive allegations of the lawsuit with trial anticipated in Spring 2020. There can be no assurance that the resolution of this matter will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

In April 2014, UFCW & Employers Benefit Trust, a self-funded labor union trust fund which accesses the Sutter network through Sutter's contract with Blue Shield, filed a civil class action lawsuit against Sutter Health and certain affiliates. This lawsuit alleges that Sutter Health and those certain affiliates' contracting practices led to high prices and reduced competition for health care services in violation of state antitrust and unfair competition laws. In August 2017, the court certified the class, allowing the lawsuit to proceed as a class action lawsuit. The certification of the class is a procedural decision and no decision has been made on the substantive allegations of the lawsuit. In March 2018, the California Attorney General filed a complaint against Sutter Health and certain affiliates that mirrors UFCW & Employers Benefit Trust's class action lawsuit. The court ordered the California Attorney General's lawsuit consolidated with UFCW & Employers Benefit Trust's class action lawsuit. Trial is scheduled for August 12, 2019. The consolidated lawsuits presently seek monetary damages in addition to certain injunctive relief, which would proceed to trial in the event that the court awards any monetary damages. Sutter Health and the related affiliates believe their contracting practices are in compliance with industry standards and with all applicable laws and regulations and will continue to vigorously defend the consolidated lawsuits. However, there can be no assurance that the resolution of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

14. CONTINGENCIES AND COMMITMENTS (continued)

Sutter Health and one of its affiliates are finalizing contractual dispute issues with certain third-party commercial payers related to a lab outreach program. Specifically, Sutter Health and this affiliate have addressed and settled a number of these payment inquiries and are close to settling all remaining payment inquiries from third-party commercial payers. Management estimated and accrued an amount reasonably anticipated to be paid due to these payment inquiries and it is management's opinion that payments due beyond the accrual, if any, will not have a material adverse effect on Sutter's future consolidated financial position or results of operations. Management is also in the process of responding to inquiries from the DOJ related to the lab outreach program.

Concurrently with the implementation of certain Medicare billing rules in October 2013, CMS has indicated that a written and authenticated inpatient admission order from an authorized physician was a condition of payment for Medicare billing. As a part of its compliance activities, Sutter undertook an internal compliance audit process related to these Medicare billing rules. Based on preliminary data analysis and an audit of samples of cases, management accrued an amount for potential liabilities and Sutter submitted an estimated overpayment refund. CMS accepted the overpayment refund and, to date, has not requested any additional information. The ultimate resolution of this matter will not have a material adverse effect on Sutter's future consolidated financial position or results of operations.

In June 2016, Sutter Health received notice from the DOJ that it is investigating Sutter Health and certain affiliates for potential False Claims Act violations in connection with the provision of diagnostic and other data submitted to Medicare Advantage (MA) organizations or MA plans related to MA enrollees who have received medical services from those affiliates. Sutter Health and the related affiliates provided responses to the DOJ's document requests through rolling productions and, following extended negotiations, has agreed in principle to settle the matter on an overpayment basis as to all related affiliates except one. Management accrued an amount for potential liabilities related to this settlement. It is management's opinion that the liability accrued will be adequate for the settlement and that the settlement will not have a material adverse effect on Sutter's future consolidated financial position or results of operations. As to the single remaining related affiliate involved in the investigation, in March 2019, the government intervened in the lawsuit that prompted the investigation. The lawsuit, a previously sealed False Claims Act qui tam complaint that is now public, was brought by a former employee. There can be no assurance that the resolution of the lawsuit will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

14. CONTINGENCIES AND COMMITMENTS (continued)

Two affiliates (collectively, the “Sutter Participants”) participate in a multi-employer plan that covers certain hospital employees in the San Francisco Bay Area. The main contributing employers in the plan are the Sutter Participants, Dignity Health and Verity Health System of California, Inc., formerly known as Daughters of Charity Health System (“Verity”). On August 31, 2018, Verity filed for bankruptcy. If any of the contributing employers defaults on its plan obligations or an employer’s obligations are ultimately discharged in bankruptcy, then the funding liability of the related employer could become the responsibility of the remaining employers. As the parent of the Sutter Participants, Sutter Health could be jointly and severally liable for certain liabilities related to plan funding. The amount of any such additional liability, which remains subject to determination by the bankruptcy court and the value of the plan assets at the time of such determination, could be approximately \$50.

As of December 31, 2018, Sutter has approximately 53,000 employees of which approximately 25% are represented by collective bargaining units.

Commitments: Sutter is required to remediate certain of its health care facilities to comply with earthquake retrofit requirements under a State of California law. Most of Sutter’s facilities are compliant or have received extensions, making the facilities compliant until 2030, and Sutter is evaluating its facilities and is considering all options.

Sutter’s capital allocation plan, which includes amounts for seismic retrofits, replacement facilities and equipment, relocations and expansion, and technology investments is approximately \$4,558 (unaudited) from January 1, 2019 to December 31, 2023. Management and the Board of Directors evaluate Sutter’s capital needs on an ongoing basis.

15. SUBSEQUENT EVENTS

Sutter has evaluated subsequent events and disclosed all material events through March 6, 2019, which is the date these consolidated financial statements were issued.

Report of Independent Auditors on Supplementary Information

The Board of Directors
Sutter Health and Affiliates

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating financial statement schedules for Sutter Health and the Sutter Health – Obligated Group consolidated financial statements with consolidating details are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

March 6, 2019

Sutter Health and Affiliates
Consolidating Balance Sheet - Areas, Other and Sutter Health Support Services
December 31, 2018
(Dollars in millions)

	Sutter Health Bay Area	Sutter Health Valley Area	Other	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ 286	\$ 147	\$ 49	\$ 76	\$ (196)	\$ 362
Short-term investments	337	51	19	4,398	195	5,000
Patient accounts receivable	698	457	65	21	(18)	1,223
Other receivables	522	317	40	691	(735)	835
Inventories	64	53	3	7	-	127
Other	22	28	5	124	-	179
Total current assets	1,929	1,053	181	5,317	(754)	7,726
Non-current investments	427	31	12	513	-	983
Property, plant and equipment, net	5,878	1,866	38	411	-	8,193
Other non-current assets	92	55	3	327	(76)	401
	<u>\$ 8,326</u>	<u>\$ 3,005</u>	<u>\$ 234</u>	<u>\$ 6,568</u>	<u>\$ (830)</u>	<u>\$ 17,303</u>
Liabilities and net assets						
Current liabilities:						
Accounts payable	\$ 202	\$ 109	\$ 17	\$ 433	\$ -	\$ 761
Accrued salaries and related benefits	263	196	30	157	1	647
Other accrued expenses	736	312	97	427	(761)	811
Current portion of long-term obligations	28	22	1	6	-	57
Total current liabilities	1,229	639	145	1,023	(760)	2,276
Non-current liabilities:						
Long-term obligations, less current portion	3,379	1,169	11	67	-	4,626
Other	61	25	7	1,226	(29)	1,290
Net assets:						
Without donor restrictions:						
Controlling	3,217	1,128	69	4,171	(55)	8,530
Noncontrolling	19	4	-	74	15	112
With donor restrictions	421	40	2	7	(1)	469
Total net assets	<u>3,657</u>	<u>1,172</u>	<u>71</u>	<u>4,252</u>	<u>(41)</u>	<u>9,111</u>
	<u>\$ 8,326</u>	<u>\$ 3,005</u>	<u>\$ 234</u>	<u>\$ 6,568</u>	<u>\$ (830)</u>	<u>\$ 17,303</u>

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Areas, Other and Sutter Health Support Services
Year ended December 31, 2018
(Dollars in millions)

	Sutter Health Bay Area	Sutter Health Valley Area	Other	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Net assets without donor restrictions:						
Operating revenues:						
Patient service revenues	\$ 6,349	\$ 4,056	\$ 423	\$ 195	\$ (66)	\$ 10,957
Premium revenues	518	722	449	63	(369)	1,383
Contributions	5	1	1	-	(1)	6
Other	263	64	18	1,465	(1,459)	351
Total operating revenues	7,135	4,843	891	1,723	(1,895)	12,697
Operating expenses:						
Salaries and employee benefits	2,865	1,856	317	910	(96)	5,852
Purchased services	2,498	1,593	116	466	(1,301)	3,372
Supplies	783	578	43	88	-	1,492
Depreciation and amortization	409	219	10	154	(111)	681
Rentals and leases	83	55	10	30	(2)	176
Interest	86	38	1	(10)	-	115
Insurance	42	27	2	5	(61)	15
Other	312	232	407	150	(308)	793
Total operating expenses	7,078	4,598	906	1,793	(1,879)	12,496
Income (loss) from operations	57	245	(15)	(70)	(16)	201
Investment income	27	6	1	153	-	187
Change in net unrealized gains and losses on investments classified as trading	(7)	-	-	(447)	-	(454)
Loss on extinguishment of debt	-	-	-	(54)	-	(54)
(Loss) income	77	251	(14)	(418)	(16)	(120)
Less income attributable to noncontrolling interests	(22)	(5)	-	(35)	(16)	(78)
(Loss) income attributable to Sutter Health	55	246	(14)	(453)	(32)	(198)

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Areas, Other and Sutter Health Support Services (continued)
Year ended December 31, 2018
(Dollars in millions)

	Sutter Health Bay Area	Sutter Health Valley Area	Other	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Net assets without donor restrictions (continued):						
Controlling:						
(Loss) income attributable to Sutter Health	\$ 55	\$ 246	\$ (14)	\$ (453)	\$ (32)	\$ (198)
Change in net unrealized gains and losses on investments classified as other-than-trading	(53)	(7)	(1)	87	(1)	25
Net assets released from restriction for equipment acquisition	14	3	-	-	-	17
Pension-related changes other than net periodic pension cost	-	-	-	(301)	-	(301)
Transfers with related entities, net	(192)	(229)	2	419	-	-
Other	21	-	-	(32)	33	22
(Decrease) increase in controlling	(155)	13	(13)	(280)	-	(435)
Noncontrolling:						
Income attributable to noncontrolling interests	22	5	-	35	16	78
Distributions	(19)	(4)	-	(51)	-	(74)
Other	-	1	-	14	(15)	-
Increase (decrease) in noncontrolling	3	2	-	(2)	1	4
Net assets with donor restrictions:						
Contributions	29	9	1	1	(1)	39
Investment income	11	-	-	-	1	12
Change in net unrealized gains and losses on investments	(7)	(1)	-	-	-	(8)
Net assets released from restriction	(28)	(6)	(1)	(1)	1	(35)
Other	(22)	-	-	-	(2)	(24)
(Decrease) increase in net assets with donor restrictions	(17)	2	-	-	(1)	(16)
(Decrease) increase in net assets	(169)	17	(13)	(282)	-	(447)
Net assets, beginning of year	3,826	1,155	84	4,534	(41)	9,558
Net assets, end of year	\$ 3,657	\$ 1,172	\$ 71	\$ 4,252	\$ (41)	\$ 9,111

Sutter Health and Affiliates
Consolidating Balance Sheet - Sutter Health Bay Area
December 31, 2018
(Dollars in millions)

	Sutter Bay Hospitals and Affiliates	Sutter Bay Medical Foundation	Adjustments and Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 93	\$ 193	\$ -	\$ 286
Short-term investments	326	11	-	337
Patient accounts receivable	525	173	-	698
Other receivables	498	45	(21)	522
Inventories	62	2	-	64
Other	21	1	-	22
Total current assets	1,525	425	(21)	1,929
Non-current investments	376	52	(1)	427
Property, plant and equipment, net	4,721	1,157	-	5,878
Other non-current assets	55	37	-	92
	<u>\$ 6,677</u>	<u>\$ 1,671</u>	<u>\$ (22)</u>	<u>\$ 8,326</u>
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 133	\$ 69	\$ -	\$ 202
Accrued salaries and related benefits	167	96	-	263
Other accrued expenses	624	133	(21)	736
Current portion of long-term obligations	28	-	-	28
Total current liabilities	952	298	(21)	1,229
Non-current liabilities:				
Long-term obligations, less current portion	2,807	572	-	3,379
Other	44	17	-	61
Net assets:				
Without donor restrictions:				
Controlling	2,496	721	-	3,217
Noncontrolling	19	-	-	19
With donor restrictions	359	63	(1)	421
Total net assets	<u>2,874</u>	<u>784</u>	<u>(1)</u>	<u>3,657</u>
	<u>\$ 6,677</u>	<u>\$ 1,671</u>	<u>\$ (22)</u>	<u>\$ 8,326</u>

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Bay Area
Year Ended December 31, 2018
(Dollars in millions)

	Sutter Bay Hospitals and Affiliates	Sutter Bay Medical Foundation	Adjustments and Eliminations	Consolidated
Net assets without donor restrictions:				
Operating revenues:				
Patient service revenues	\$ 4,080	\$ 2,351	\$ (82)	\$ 6,349
Premium revenues	191	328	(1)	518
Contributions	5	-	-	5
Other	205	134	(76)	263
Total operating revenues	4,481	2,813	(159)	7,135
Operating expenses:				
Salaries and employee benefits	2,146	802	(83)	2,865
Purchased services	1,090	1,471	(63)	2,498
Supplies	517	266	-	783
Depreciation and amortization	305	103	1	409
Rentals and leases	36	58	(11)	83
Interest	65	21	-	86
Insurance	36	5	1	42
Other	277	39	(4)	312
Total operating expenses	4,472	2,765	(159)	7,078
Income (loss) from operations	9	48	-	57
Investment income	23	4	-	27
Change in net unrealized gains and losses on investments classified as trading	(7)	-	-	(7)
Loss on extinguishment of debt	-	-	-	-
(Loss) income	25	52	-	77
Less income attributable to noncontrolling interests	(22)	-	-	(22)
(Loss) income attributable to Sutter Health	3	52	-	55

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Bay Area (continued)
Year Ended December 31, 2018
(Dollars in millions)

	Sutter Bay Hospitals and Affiliates	Sutter Bay Medical Foundation	Adjustments and Eliminations	Consolidated
Net assets without donor restrictions (continued):				
Controlling:				
(Loss) income attributable to Sutter Health	\$ 3	\$ 52	\$ -	\$ 55
Change in net unrealized gains and losses on investments classified as other-than-trading	(50)	(3)	-	(53)
Net assets released from restriction for equipment acquisition	5	9	-	14
Pension-related changes other than net periodic pension cost	-	-	-	-
Transfers with related entities, net	(178)	(14)	-	(192)
Other	22	-	(1)	21
(Decrease) increase in controlling	(198)	44	(1)	(155)
Noncontrolling:				
Income attributable to noncontrolling interests	22	-	-	22
Distributions	(20)	-	1	(19)
Other	-	-	-	-
Increase (decrease) in noncontrolling	2	-	1	3
Net assets with donor restrictions:				
Contributions	22	7	-	29
Investment income	10	1	-	11
Change in net unrealized gains and losses on investments	(6)	(1)	-	(7)
Net assets released from restriction	(17)	(11)	-	(28)
Other	(22)	1	(1)	(22)
(Decrease) increase in net assets with donor restrictions	(13)	(3)	(1)	(17)
(Decrease) increase in net assets	(209)	41	(1)	(169)
Net assets, beginning of year	3,083	743	-	3,826
Net assets, end of year	\$ 2,874	\$ 784	\$ (1)	\$ 3,657

Sutter Health and Affiliates
Consolidating Balance Sheet - Sutter Health Valley Area
December 31, 2018
(Dollars in millions)

	Sutter Valley Hospitals and Affiliates	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC	Sutter Amador Surgery Center LLC	Stanislaus Surgical Hospital LLC	Adjustments and Eliminations	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	\$ 51	\$ 91	\$ 2	\$ -	\$ 3	\$ -	\$ 147
Short-term investments	50	1	-	-	-	-	51
Patient accounts receivable	361	91	-	-	4	1	457
Other receivables	313	14	-	-	-	(10)	317
Inventories	42	10	-	-	1	-	53
Other	27	1	-	-	1	(1)	28
Total current assets	844	208	2	-	9	(10)	1,053
Non-current investments	31	-	-	-	-	-	31
Property, plant and equipment, net	1,546	316	-	-	4	-	1,866
Other non-current assets	17	38	-	2	16	(18)	55
	<u>\$ 2,438</u>	<u>\$ 562</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 29</u>	<u>\$ (28)</u>	<u>\$ 3,005</u>
Liabilities and net assets							
Current liabilities:							
Accounts payable	\$ 85	\$ 21	\$ -	\$ -	\$ 2	\$ 1	\$ 109
Accrued salaries and related benefits	160	36	-	-	1	(1)	196
Other accrued expenses	189	131	1	-	1	(10)	312
Current portion of long-term obligations	22	-	-	-	-	-	22
Total current liabilities	456	188	1	-	4	(10)	639
Non-current liabilities:							
Long-term obligations, less current portion	977	192	-	-	1	(1)	1,169
Other	14	6	-	-	5	-	25
Net assets:							
Without donor restrictions:							
Controlling	953	173	3	2	12	(15)	1,128
Noncontrolling	-	1	(2)	-	7	(2)	4
With donor restrictions	38	2	-	-	-	-	40
Total net assets	991	176	1	2	19	(17)	1,172
	<u>\$ 2,438</u>	<u>\$ 562</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 29</u>	<u>\$ (28)</u>	<u>\$ 3,005</u>

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Valley Health Area
Year Ended December 31, 2018
(Dollars in millions)

	Sutter Valley Hospitals and Affiliates	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC	Sutter Amador Surgery Center LLC	Stanislaus Surgical Hospital LLC	Adjustments and Eliminations	Consolidated
Net assets without donor restrictions:							
Operating revenues:							
Patient service revenues	\$ 2,958	\$ 1,132	\$ 10	\$ 2	\$ 34	\$ (80)	\$ 4,056
Premium revenues	385	341	-	-	-	(4)	722
Contributions	1	-	-	-	-	-	1
Other	58	83	-	-	2	(79)	64
Total operating revenues	3,402	1,556	10	2	36	(163)	4,843
Operating expenses:							
Salaries and employee benefits	1,500	418	-	-	14	(76)	1,856
Purchased services	725	931	4	1	4	(72)	1,593
Supplies	480	90	1	1	8	(2)	578
Depreciation and amortization	171	44	-	-	1	3	219
Rentals and leases	25	38	-	-	3	(11)	55
Interest	31	7	-	-	-	-	38
Insurance	24	3	-	-	-	-	27
Other	207	24	-	-	1	-	232
Total operating expenses	3,163	1,555	5	2	31	(158)	4,598
Income (loss) from operations	239	1	5	-	5	(5)	245
Investment income	5	1	-	-	-	-	6
Change in net unrealized gains and losses on investments classified as trading	-	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-	-
(Loss) income	244	2	5	-	5	(5)	251
Less income attributable to noncontrolling interests	-	(1)	-	-	-	(4)	(5)
(Loss) income attributable to Sutter Health	244	1	5	-	5	(9)	246

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Valley Health Area (continued)
Year Ended December 31, 2018
(Dollars in millions)

	Sutter Valley Hospitals and Affiliates	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC	Sutter Amador Surgery Center LLC	Stanislaus Surgical Hospital LLC	Adjustments and Eliminations	Consolidated
Net assets without donor restrictions (continued):							
Controlling:							
(Loss) income attributable to Sutter Health	\$ 244	\$ 1	\$ 5	\$ -	\$ 5	\$ (9)	\$ 246
Change in net unrealized gains and losses on investments classified as other-than-trading	(7)	-	-	-	-	-	(7)
Net assets released from restriction for equipment acquisition	3	-	-	-	-	-	3
Pension-related changes other than net periodic pension cost	-	-	-	-	-	-	-
Transfers with related entities, net	(225)	(4)	-	-	-	-	(229)
Other	-	-	(5)	-	-	5	-
(Decrease) increase in controlling	15	(3)	-	-	5	(4)	13
Noncontrolling:							
Income attributable to noncontrolling interests	-	1	-	-	-	4	5
Distributions	-	(1)	(3)	-	-	-	(4)
Other	-	-	2	-	-	(1)	1
Increase (decrease) in noncontrolling	-	-	(1)	-	-	3	2
Net assets with donor restrictions:							
Contributions	7	2	-	-	-	-	9
Investment income	-	-	-	-	-	-	-
Change in net unrealized gains and losses on investments	(1)	-	-	-	-	-	(1)
Net assets released from restriction	(5)	(1)	-	-	-	-	(6)
Other	-	-	-	-	-	-	-
(Decrease) increase in net assets with donor restrictions	1	1	-	-	-	-	2
(Decrease) increase in net assets	16	(2)	(1)	-	5	(1)	17
Net assets, beginning of year	975	178	2	2	14	(16)	1,155
Net assets, end of year	\$ 991	\$ 176	\$ 1	\$ 2	\$ 19	\$ (17)	\$ 1,172

Sutter Health and Affiliates
Consolidating Balance Sheet - Other
December 31, 2018
(Dollars in millions)

	Kahi Mohala	Sutter Coast Hospital	Sutter Care at Home	Sutter Health Plus	Adjustments and Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ -	\$ 1	\$ 3	\$ 46	\$ (1)	\$ 49
Short-term investments	-	-	6	13	-	19
Patient accounts receivable	3	10	52	-	-	65
Other receivables	-	6	2	31	1	40
Inventories	-	1	2	-	-	3
Other	1	-	2	2	-	5
Total current assets	4	18	67	92	-	181
Non-current investments	-	-	12	-	-	12
Property, plant and equipment, net	4	23	8	3	-	38
Other non-current assets	-	-	3	-	-	3
	<u>\$ 8</u>	<u>\$ 41</u>	<u>\$ 90</u>	<u>\$ 95</u>	<u>\$ -</u>	<u>\$ 234</u>
Liabilities and net assets						
Current liabilities:						
Accounts payable	\$ -	\$ 3	\$ 9	\$ 5	\$ -	\$ 17
Accrued salaries and related benefits	1	3	25	1	-	30
Other accrued expenses	1	5	20	71	-	97
Current portion of long-term obligations	-	1	-	-	-	1
Total current liabilities	2	12	54	77	-	145
Non-current liabilities:						
Long-term obligations, less current portion	-	11	-	-	-	11
Other	2	-	4	1	-	7
Net assets:						
Without donor restrictions:						
Controlling	4	18	30	17	-	69
Noncontrolling	-	-	-	-	-	-
With donor restrictions	-	-	2	-	-	2
Total net assets	4	18	32	17	-	71
	<u>\$ 8</u>	<u>\$ 41</u>	<u>\$ 90</u>	<u>\$ 95</u>	<u>\$ -</u>	<u>\$ 234</u>

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Other
Year ended December 31, 2018
(Dollars in millions)

	Kahi Mohala	Sutter Coast Hospital	Sutter Care at Home	Sutter Health Plus	Adjustments and Eliminations	Consolidated
Net assets without donor restrictions:						
Operating revenues:						
Patient service revenues	\$ 23	\$ 89	\$ 311	\$ -	\$ -	\$ 423
Premium revenues	-	-	20	429	-	449
Contributions	-	-	1	-	-	1
Other	1	-	17	-	-	18
Total operating revenues	24	89	349	429	-	891
Operating expenses:						
Salaries and employee benefits	17	40	242	18	-	317
Purchased services	3	25	54	35	(1)	116
Supplies	1	9	33	-	-	43
Depreciation and amortization	1	5	3	1	-	10
Rentals and leases	-	1	8	1	-	10
Interest	-	1	-	-	-	1
Insurance	-	1	1	-	-	2
Other	1	2	13	390	1	407
Total operating expenses	23	84	354	445	-	906
Income (loss) from operations	1	5	(5)	(16)	-	(15)
Investment income	-	-	1	-	-	1
Change in net unrealized gains and losses on investments classified as trading	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-
(Loss) income	1	5	(4)	(16)	-	(14)
Less income attributable to noncontrolling interests	-	-	-	-	-	-
(Loss) income attributable to Sutter Health	1	5	(4)	(16)	-	(14)

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Other (continued)
Year ended December 31, 2018
(Dollars in millions)

	Kahi Mohala	Sutter Coast Hospital	Sutter Care at Home	Sutter Health Plus	Adjustments and Eliminations	Consolidated
Net assets without donor restrictions (continued):						
Controlling:						
(Loss) income attributable to Sutter Health	\$ 1	\$ 5	\$ (4)	\$ (16)	\$ -	\$ (14)
Change in net unrealized gains and losses on investments classified as other-than-trading	-	-	(1)	-	-	(1)
Net assets released from restriction for equipment acquisition	-	-	-	-	-	-
Pension-related changes other than net periodic pension cost	-	-	-	-	-	-
Transfers with related entities, net	(4)	(7)	4	8	1	2
Other	-	-	-	-	-	-
(Decrease) increase in controlling	(3)	(2)	(1)	(8)	1	(13)
Noncontrolling:						
Income attributable to noncontrolling interests	-	-	-	-	-	-
Distributions	-	-	-	-	-	-
Other	-	-	-	-	-	-
Increase (decrease) in noncontrolling	-	-	-	-	-	-
Net assets with donor restrictions:						
Contributions	-	-	1	-	-	1
Investment income	-	-	-	-	-	-
Change in net unrealized gains and losses on investments	-	-	-	-	-	-
Net assets released from restriction	-	-	(1)	-	-	(1)
Other	-	-	1	-	(1)	-
(Decrease) increase in net assets with donor restrictions	-	-	1	-	(1)	-
(Decrease) increase in net assets	(3)	(2)	-	(8)	-	(13)
Net assets, beginning of year	7	20	32	25	-	84
Net assets, end of year	\$ 4	\$ 18	\$ 32	\$ 17	\$ -	\$ 71

Sutter Health and Affiliates

Consolidated Balance Sheets – Sutter Health Obligated Group

(Dollars in millions)

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 260	\$ 304
Short-term investments	4,383	4,343
Patient accounts receivable	1,220	1,274
Other receivables	792	841
Inventories	127	118
Other	173	195
Total current assets	6,955	7,075
Non-current investments	682	500
Property, plant and equipment, net	8,163	7,926
Other non-current assets	397	433
	\$ 16,197	\$ 15,934
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 753	\$ 844
Accrued salaries and related benefits	641	571
Other accrued expenses	676	740
Current portion of long-term obligations	57	150
Total current liabilities	2,127	2,305
Non-current liabilities:		
Long-term obligations, less current portion	4,626	3,972
Other	1,157	966
Net assets:		
Without donor restrictions:		
Controlling	8,082	8,484
Noncontrolling	112	108
With donor restrictions	93	99
Total net assets	8,287	8,691
	\$ 16,197	\$ 15,934

Sutter Health and Affiliates

Consolidated Statements of Operations and Changes in Net Assets – Sutter Health Obligated Group

(Dollars in millions)

	Year ended December 31,	
	2018	2017
Net assets without donor restrictions:		
Operating revenues:		
Patient service revenues	\$ 10,935	\$ 10,807
Premium revenues	1,244	1,122
Contributions	1	3
Other	314	366
Total operating revenues	12,494	12,298
Operating expenses:		
Salaries and employee benefits	5,760	5,536
Purchased services	3,325	3,218
Supplies	1,490	1,389
Depreciation and amortization	676	651
Rentals and leases	172	173
Interest	115	105
Insurance	77	62
Other	652	787
Total operating expenses	12,267	11,921
Income from operations	227	377
Investment income	168	312
Change in net unrealized gains and losses on investments classified as trading	(378)	262
Loss on extinguishment of debt	(54)	(19)
(Loss) income	(37)	932
Less income attributable to noncontrolling interests	(78)	(65)
(Loss) income attributable to Sutter Health Obligated Group	(115)	867

Sutter Health and Affiliates

Consolidated Statements of Operations and Changes in Net Assets – Sutter Health Obligated Group (continued)

(Dollars in millions)

	Year ended December 31,	
	2018	2017
Net assets without donor restrictions (continued):		
Controlling:		
(Loss) income attributable to		
Sutter Health Obligated Group	\$ (115)	\$ 867
Change in net unrealized gains and losses on		
investments classified as other-than-trading	20	21
Net assets released from restriction for		
equipment acquisition	17	13
Pension-related changes other than net periodic		
pension cost	(301)	91
Transfers with related entities, net	(22)	(51)
Other	(1)	(1)
(Decrease) increase in controlling	(402)	940
Noncontrolling:		
Income attributable to noncontrolling interests	78	65
Distributions	(74)	(73)
Other	–	4
Increase (decrease) in noncontrolling	4	(4)
Net assets with donor restrictions:		
Contributions	12	12
Investment income	1	1
Change in net unrealized gains and losses on investments	(3)	4
Net assets released from restriction	(16)	(10)
Other	–	(1)
(Decrease) increase in net assets with donor restrictions	(6)	6
(Decrease) increase in net assets	(404)	942
Net assets, beginning of year	8,691	7,749
Net assets, end of year	\$ 8,287	\$ 8,691

Sutter Health and Affiliates

Consolidated Statements of Cash Flows – Sutter Health Obligated Group

(Dollars in millions)

	Year ended December 31,	
	2018	2017
Operating activities		
(Decrease) increase in net assets	\$ (404)	\$ 942
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	54	19
Depreciation and amortization	647	629
Amortization of bond issuance costs, (premium) and discount, net	(40)	(29)
Net realized gains and losses and change in net unrealized gains and losses on investments	256	(547)
Restricted contributions and investment income	(13)	(13)
Distributions to noncontrolling interest	74	—
Loss on impairment of property, plant and equipment	18	5
Loss on impairment of goodwill	4	14
Net loss (gain) on disposal of property, plant and equipment	4	(16)
Change in net postretirement benefits	241	(32)
Net changes in operating assets and liabilities:		
Patient accounts receivable and other receivables	103	(334)
Inventories and other assets	34	(37)
Accounts payable and accrued expenses	(146)	523
Other non-current liabilities	(49)	31
Net cash provided by operating activities	<u>783</u>	<u>1,155</u>
Investing activities		
Purchases of property, plant and equipment	(916)	(920)
Proceeds from disposal of property, plant and equipment	33	19
Purchases of investments	(3,090)	(2,679)
Proceeds from sales of investments	2,612	2,594
Other	(2)	(8)
Net cash used in investing activities	<u>(1,363)</u>	<u>(994)</u>

Sutter Health and Affiliates

Consolidated Statements of Cash Flows – Sutter Health Obligated Group (continued)

(Dollars in millions)

	Year ended December 31,	
	2018	2017
Financing activities		
Payments of long-term obligations	\$ (152)	\$ (54)
Refund of bonds	(633)	(631)
Proceeds from issuance of long-term obligations	1,314	438
Bond issuance costs	(9)	(4)
Bond issuance premium (discount), net	77	62
Restricted contributions and investment income	13	13
Distributions to noncontrolling interest	(74)	–
Net cash provided by (used in) financing activities	<u>536</u>	<u>(176)</u>
Net decrease in cash and cash equivalents	(44)	(15)
Cash and cash equivalents at beginning of year	304	319
Cash and cash equivalents at end of year	<u>\$ 260</u>	<u>\$ 304</u>

Sutter Health and Affiliates
Consolidating Balance Sheet - Sutter Health Obligated Group
December 31, 2018
(Dollars in millions)

	Sutter Bay Hospitals and Affiliates	Sutter Coast Hospital	Sutter Valley Hospitals	Sutter Bay Medical Foundation	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC
Assets						
Current assets:						
Cash and cash equivalents	\$ 29	\$ 1	\$ 46	\$ 193	\$ 91	\$ 2
Short-term investments	1	-	3	11	1	-
Patient accounts receivable	525	10	361	173	91	-
Other receivables	475	6	313	45	14	-
Inventories	61	1	42	2	10	-
Other	18	-	27	1	1	-
Total current assets	1,109	18	792	425	208	2
Non-current investments	106	-	-	52	-	-
Property, plant and equipment, net	4,699	23	1,544	1,157	316	-
Other non-current assets	37	-	13	37	38	-
	<u>\$ 5,951</u>	<u>\$ 41</u>	<u>\$ 2,349</u>	<u>\$ 1,671</u>	<u>\$ 562</u>	<u>\$ 2</u>
Liabilities and net assets						
Current liabilities:						
Accounts payable	\$ 130	\$ 3	\$ 85	\$ 69	\$ 21	\$ -
Accrued salaries and related benefits	164	3	160	96	36	-
Other accrued expenses	586	5	186	133	131	1
Current portion of long-term obligations	28	1	22	-	-	-
Total current liabilities	908	12	453	298	188	1
Non-current liabilities:						
Long-term obligations, less current portion	2,807	11	977	572	192	-
Other	20	-	14	17	6	-
Net assets:						
Without donor restrictions:						
Controlling	2,179	18	903	721	173	3
Noncontrolling	19	-	-	-	1	(2)
With donor restrictions	18	-	2	63	2	-
Total net assets	<u>2,216</u>	<u>18</u>	<u>905</u>	<u>784</u>	<u>176</u>	<u>1</u>
	<u>\$ 5,951</u>	<u>\$ 41</u>	<u>\$ 2,349</u>	<u>\$ 1,671</u>	<u>\$ 562</u>	<u>\$ 2</u>

Sutter Health and Affiliates
Consolidating Balance Sheet - Sutter Health Obligated Group (continued)
December 31, 2018
(Dollars in millions)

	Sutter Amador Surgery Center LLC	Stanislaus Surgical Hospital LLC	Sutter Care at Home	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ -	\$ 3	\$ 3	\$ 74	\$ (182)	\$ 260
Short-term investments	-	-	6	4,180	181	4,383
Patient accounts receivable	-	4	52	21	(17)	1,220
Other receivables	-	-	2	690	(753)	792
Inventories	-	1	2	7	1	127
Other	-	1	2	124	(1)	173
Total current assets	-	9	67	5,096	(771)	6,955
Non-current investments	-	-	12	513	(1)	682
Property, plant and equipment, net	-	4	8	411	1	8,163
Other non-current assets	2	16	3	325	(74)	397
	<u>\$ 2</u>	<u>\$ 29</u>	<u>\$ 90</u>	<u>\$ 6,345</u>	<u>\$ (845)</u>	<u>\$ 16,197</u>
Liabilities and net assets						
Current liabilities:						
Accounts payable	\$ -	\$ 2	\$ 9	\$ 433	\$ 1	\$ 753
Accrued salaries and related benefits	-	1	25	156	-	641
Other accrued expenses	-	1	20	390	(777)	676
Current portion of long-term obligations	-	-	-	6	-	57
Total current liabilities	-	4	54	985	(776)	2,127
Non-current liabilities:						
Long-term obligations, less current portion	-	1	-	67	(1)	4,626
Other	-	5	4	1,101	(10)	1,157
Net assets:						
Without donor restrictions:						
Controlling	2	12	30	4,111	(70)	8,082
Noncontrolling	-	7	-	74	13	112
With donor restrictions	-	-	2	7	(1)	93
Total net assets	<u>2</u>	<u>19</u>	<u>32</u>	<u>4,192</u>	<u>(58)</u>	<u>8,287</u>
	<u>\$ 2</u>	<u>\$ 29</u>	<u>\$ 90</u>	<u>\$ 6,345</u>	<u>\$ (845)</u>	<u>\$ 16,197</u>

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Obligated Group
Year ended December 31, 2018
(Dollars in millions)

	Sutter Bay Hospitals and Affiliates	Sutter Coast Hospital	Sutter Valley Hospitals	Sutter Bay Medical Foundation	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC
Net assets without donor restrictions:						
Operating revenues:						
Patient service revenues	\$ 4,080	\$ 89	\$ 2,958	\$ 2,351	\$ 1,132	\$ 10
Premium revenues	191	-	385	328	341	-
Contributions	-	-	-	-	-	-
Other	146	-	60	134	83	-
Total operating revenues	4,417	89	3,403	2,813	1,556	10
Operating expenses:						
Salaries and employee benefits	2,086	40	1,497	802	418	-
Purchased services	1,075	25	724	1,471	931	4
Supplies	516	9	480	266	90	1
Depreciation and amortization	302	5	171	103	44	-
Rentals and leases	32	1	25	58	38	-
Interest	65	1	31	21	7	-
Insurance	35	1	24	5	3	-
Other	267	2	206	39	24	-
Total operating expenses	4,378	84	3,158	2,765	1,555	5
Income (loss) from operations	39	5	245	48	1	5
Investment income	7	-	3	4	1	-
Change in net unrealized gains and losses on investments classified as trading	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	-	-	-	-
(Loss) income	46	5	248	52	2	5
Less income attributable to noncontrolling interests	(22)	-	-	-	(1)	-
(Loss) income attributable to Sutter Health Obligated Group	24	5	248	52	1	5

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Obligated Group (continued)
Year ended December 31, 2018
(Dollars in millions)

	Sutter Amador Surgery Center LLC	Stanislaus Surgical Hospital LLC	Sutter Care at Home	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Net assets without donor restrictions:						
Operating revenues:						
Patient service revenues	\$ 2	\$ 34	\$ 311	\$ 195	\$ (227)	\$ 10,935
Premium revenues	-	-	20	-	(21)	1,244
Contributions	-	-	1	-	-	1
Other	-	2	17	1,469	(1,597)	314
Total operating revenues	2	36	349	1,664	(1,845)	12,494
Operating expenses:						
Salaries and employee benefits	-	14	242	910	(249)	5,760
Purchased services	1	4	54	463	(1,427)	3,325
Supplies	1	8	33	88	(2)	1,490
Depreciation and amortization	-	1	3	154	(107)	676
Rentals and leases	-	3	8	30	(23)	172
Interest	-	-	-	(10)	-	115
Insurance	-	-	1	8	-	77
Other	-	1	13	116	(16)	652
Total operating expenses	2	31	354	1,759	(1,824)	12,267
Income (loss) from operations	-	5	(5)	(95)	(21)	227
Investment income	-	-	1	153	(1)	168
Change in net unrealized gains and losses on investments classified as trading	-	-	-	(378)	-	(378)
Loss on extinguishment of debt	-	-	-	(54)	-	(54)
(Loss) income	-	5	(4)	(374)	(22)	(37)
Less income attributable to noncontrolling interests	-	-	-	(35)	(20)	(78)
(Loss) income attributable to Sutter Health Obligated Group	-	5	(4)	(409)	(42)	(115)

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Obligated Group (continued)
Year ended December 31, 2018
(Dollars in millions)

	Sutter Bay Hospitals and Affiliates	Sutter Coast Hospital	Sutter Valley Hospitals	Sutter Bay Medical Foundation	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC
Net assets without donor restrictions (continued):						
Controlling:						
(Loss) income attributable to Sutter Health	\$ 24	\$ 5	\$ 248	\$ 52	\$ 1	\$ 5
Change in net unrealized gains and losses on investments classified as other-than-trading	(8)	-	(1)	(3)	-	-
Net assets released from restriction for equipment acquisition	5	-	3	9	-	-
Pension-related changes other than net periodic pension cost	-	-	-	-	-	-
Transfers with related entities, net	(192)	(7)	(229)	(14)	(4)	-
Other	(2)	-	-	-	-	(5)
(Decrease) increase in controlling	(173)	(2)	21	44	(3)	-
Noncontrolling:						
Income attributable to noncontrolling interests	22	-	-	-	1	-
Distributions	(20)	-	-	-	(1)	(3)
Other	-	-	-	-	-	2
Increase (decrease) in noncontrolling	2	-	-	-	-	(1)
Net assets with donor restrictions:						
Contributions	2	-	1	7	2	-
Investment income	-	-	-	1	-	-
Change in net unrealized gains and losses on investments	(2)	-	-	(1)	-	-
Net assets released from restriction	(2)	-	(1)	(11)	(1)	-
Other	-	-	(1)	1	-	-
(Decrease) increase in net assets with donor restrictions	(2)	-	(1)	(3)	1	-
(Decrease) increase in net assets	(173)	(2)	20	41	(2)	(1)
Net assets, beginning of year	2,389	20	885	743	178	2
Net assets, end of year	\$ 2,216	\$ 18	\$ 905	\$ 784	\$ 176	\$ 1

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Obligated Group (continued)
Year ended December 31, 2018
(Dollars in millions)

	Sutter Amador Surgery Center LLC	Stanislaus Surgical Hospital LLC	Sutter Care at Home	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Net assets without donor restrictions (continued):						
Controlling:						
(Loss) income attributable to Sutter Health	\$ -	\$ 5	\$ (4)	\$ (409)	\$ (42)	\$ (115)
Change in net unrealized gains and losses on investments classified as other-than-trading	-	-	(1)	33	-	20
Net assets released from restriction for equipment acquisition	-	-	-	-	-	17
Pension-related changes other than net periodic pension cost	-	-	-	(301)	-	(301)
Transfers with related entities, net	-	-	4	419	1	(22)
Other	-	-	-	(32)	38	(1)
(Decrease) increase in controlling	-	5	(1)	(290)	(3)	(402)
Noncontrolling:						
Income attributable to noncontrolling interests	-	-	-	35	20	78
Distributions	-	-	-	(51)	1	(74)
Other	-	-	-	14	(16)	-
Increase (decrease) in noncontrolling	-	-	-	(2)	5	4
Net assets with donor restrictions:						
Contributions	-	-	1	1	(2)	12
Investment income	-	-	-	-	-	1
Change in net unrealized gains and losses on investments	-	-	-	-	-	(3)
Net assets released from restriction	-	-	(1)	(1)	1	(16)
Other	-	-	1	-	(1)	-
(Decrease) increase in net assets with donor restrictions	-	-	1	-	(2)	(6)
(Decrease) increase in net assets	-	5	-	(292)	-	(404)
Net assets, beginning of year	2	14	32	4,484	(58)	8,691
Net assets, end of year	\$ 2	\$ 19	\$ 32	\$ 4,192	\$ (58)	\$ 8,287

CONTINUING DISCLOSURE REPORT OF SUTTER HEALTH FOR THE YEAR ENDED DECEMBER 31, 2018

This report (the "Continuing Disclosure Report") contains an update of certain information contained in Appendix A of the Official Statements related to the issues identified below (collectively, the "Bonds") pursuant to Sutter Health's undertakings under the related continuing disclosure agreements (collectively, the "Disclosure Agreements").

Unless otherwise required by the context, all terms used herein that are defined in the bond indentures, by and between Sutter Health and Wells Fargo Bank, National Association related to the Bonds shall have the meanings assigned to them therein, except as set forth herein.

<u>Bonds</u>	<u>CUSIP*</u>
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2008A	13033F2X7
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2011A	1307952J5, 1307952K2
California Health Facilities Financing Authority Revenue Bonds(Sutter Health), Series 2011B	13033LKP1, 13033LKQ9
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2011C	1307954M6, 1307954N4, 1307954P9, 1307954V6, 1307954Q7, 1307954W4, 1307954R5, 1307954X2, 1307954S3, 1307954T1, 1307954Y0, 1307954U8
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2011D	13033LVM6, 13033LVN4, 13033LVP9, 13033LVQ7, 13033LVR5, 13033LVS3, 13033LVT1, 13033LVU8, 13033LVX2, 13033LVV6, 13033LVW4
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2012A	1307956A0, 1307956R3, 1307956M4,1307956B8, 1307956N2, 1307956C6, 1307956D4, 1307956P7, 1307956E2, 1307956F9, 1307956G7, 1307956H5, 1307956J1, 1307956Q5, 1307956S1, 1307956K8
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2013A	13033LW52
Sutter Health Taxable Bonds, Series 2013C	86944BAC7
California Health Facilities Financing Authority Refunding Revenue Bonds (Sutter Health) Series 2015A	13032UAQ1, 13032UAR9

* A registered trademark of The American Bankers Association. CUSIP is provided by Standard & Poor's CUSIP Service Bureau, a Standard & Poor's Financial Services LLC business. CUSIP numbers are provided for convenience of reference only. Sutter Health does not assume any responsibility for the accuracy of such numbers.

**California Health Facilities Financing Authority
Revenue Bonds (Sutter Health), Series 2016A**

13032UBT4, 13032UBU1, 13032UBV9, 13032UBW7,
13032UBX5, 13032UBY3, 13032UBZ0, 13032UCA4,
13032UCB2, 13032UCC0, 13032UCD8, 13032UCE6,
13032UCF3, 13032UCG1, 13032UCH9, 13032UCJ5,
13032UCL0, 13032UCK2

**California Health Facilities Financing Authority
Refunding Revenue Bonds (Sutter Health),
Series 2016B**

13032UDD7, 13032UDE5, 13032UDF2, 13032UDG0,
13032UDH8, 13032UDJ4, 13032UDK1, 13032UDL9,
13032UDM7, 13032UDN5, 13032UDP0, 13032UDQ8,
13032UDR6, 13032UDS4, 13032UDV7, 13032UDT2,
13032UDU9

**California Health Facilities Financing Authority
Revenue Bonds (Sutter Health), Series 2016C**

13032UDW5

**California Health Facilities Financing Authority
Refunding Revenue Bonds (Sutter Health),
Series 2017A**

13032UNK0, 13032UNL8, 13032UNM6, 13032UNN4,
13032UNP9, 13032UNQ7, 13032UNR5, 13032UNS3,
13032UNT1, 13032UNU8, 13032UNV6, 13032UNW4,
13032UNX2, 13032UNY0

**California Health Facilities Financing Authority
Revenue Bonds (Sutter Health), Series 2018A**

13032UQS0, 13032UQT8, 13032UQU5, 13032UQV3,
13032UQW1, 13032UQX9, 13032UQY7, 13032UQZ4,
13032URA8, 13032URB6, 13032URC4, 13032URD2,
13032URE0, 13032URF7, 13032URG5, 13032URH3,
13032URJ9, 13032URK6, 13032URL4, 13032URM2,
13032URN0, 13032URP5

Sutter Health Taxable Bonds, Series 2018A

86944BAD5, 86944BAE3

Employees, Unions and Collective Bargaining Units

As of December 31, 2018, the Sutter Health system had approximately 53,000 employees, of whom approximately 34,000 were full-time employees. Approximately 5,000 of these 53,000 employees were employed by Sutter Health and the remaining employees were employed by Affiliated Entities. Approximately 25% of these employees (employed at 21 Sutter Health facilities) were represented by collective bargaining units, with 52 collective bargaining agreements in place that remain subject to renegotiation from time to time. In connection with renegotiation of the collective bargaining agreements there could be work stoppages or other adverse labor actions and potential sympathy walkouts. Labor strikes have occurred in the past at the Obligated Group's facilities and likely will occur again in the future.

List of Obligated Group Members

As of December 31, 2018, the Obligated Group Members consisted of the following:

- Sutter Bay Hospitals
- Sutter Bay Medical Foundation
- Sutter Coast Hospital
- Sutter Health
- Sutter Valley Hospitals
- Sutter Valley Medical Foundation
- Sutter Visiting Nurse Association and Hospice

Obligated Group Utilization Data

The following table summarizes the Obligated Group's acute care facility utilization data for the fiscal year ended December 31, 2018. No Obligated Group long-term care facility utilization data is provided as Mills-Peninsula Skilled Nursing, Sutter Health's last remaining freestanding skilled nursing facility operating under its own license and Medicare provider number was sold outside of the Sutter Health system on June 30, 2015. This sale did not have a material adverse effect on the financial condition of the Obligated Group.

Obligated Group Acute Care Facility Utilization Data

	Fiscal Year Ended December 31, 2018
Licensed Beds ⁽¹⁾	4,393
Beds in Service	4,215
Admissions ⁽²⁾	187,713
Patient Days ⁽²⁾	846,919
Average Length of Stay (Days)	4.5
Occupancy % ⁽³⁾	55.0%
Emergency Room Visits ⁽⁴⁾	844,249

-
- ⁽¹⁾ Conforms to the Office of Statewide Health Planning and Development's definition of "licensed bed."
⁽²⁾ Excluding well newborns.
⁽³⁾ Based on Beds in Service.
⁽⁴⁾ Does not include Emergency Room patients subsequently admitted as inpatients.

Obligated Group Medical Foundations Operating Data

The following table summarizes the operating data for medical foundations within the Obligated Group for the fiscal year ended December 31, 2018.

Obligated Group Medical Foundations Operating Data		Fiscal Year Ended December 31, 2018
Physicians		2,498
Facilities		315
Outpatient Visits		9,159,694

Sources of Revenues

Following are summaries of gross patient revenue for the Obligated Group by payer source for the fiscal year ended December 31, 2018.

	Medicare		Medi-Cal		Commercial Programs		Other Payers
	Non-Capitated	Capitated	Non-Capitated	Capitated	Non-Capitated	Capitated	
Total Obligated Group	38.4%	4.6%	18.4%	0.4%	31.1%	3.8%	3.3%
Acute Care Hospitals	40.7%	4.4%	21.9%	0.4%	26.3%	2.5%	3.8%
Medical Foundations	30.1%	4.9%	5.9%	0.4%	48.5%	8.8%	1.4%

The following table summarizes the number of individuals in each region for whom certain physician independent practice associations and Sutter Health system medical foundation corporations provide health care services on a capitated basis as of December 31, 2018. Capitated members' lives covered by both Sutter Health's hospital corporations and these physician associations and corporations are not included in the following table.

**Sutter Health
Capitated Members ⁽¹⁾
December 31, 2018**

	Sutter Health Valley Area	Sutter Health Bay Area	Total
Capitated Members	150,707	148,809	299,516

⁽¹⁾ Includes Aligned IPAs, which are Non-Obligated Group Members.

Summary Financial Information

A copy of Sutter Health's audited financial statements for the fiscal year ended December 31, 2018 (the "Financial Statements") has been provided within this package. Please note that this Continuing Disclosure Report should be read in conjunction with the Financial Statements. Included within the Financial Statements is a summary statement of operations of the Obligated Group and a summary balance sheet of the Obligated Group, each for the fiscal year ended December 31, 2018.

Fixed Payment Coverage Ratio

The table below sets forth the actual Obligated Group's funds generated to cover fixed payments for the fiscal year 2018, and the Obligated Group's maximum annual fixed payment requirements of long-term debt and capital leases outstanding for that period.

**Sutter Health Obligated Group
Fixed Payment Coverage Ratio
(dollars in millions)**

	Fiscal Year Ended December 31, 2018
Income (Loss) ⁽¹⁾	\$ (115)
Depreciation, amortization, loss on disposal of assets	676
Interest expense	115
Loss on extinguishment of debt	<u>54</u>
Income available for debt service ⁽²⁾	730
Interest and principal on long-term debt and payment requirements on capital leases ⁽³⁾	\$ 272
Fixed payment coverage ratio (times)	2.7

⁽¹⁾ In accordance with the Master Indenture, includes certain operating and non-operating income (or loss), including, but not limited to, a change in net unrealized gains and losses on investments. While the Sutter Health Obligated Group reported a change in net unrealized gains and losses on investments of \$262 million for the fiscal year ended December 31, 2017, it reported a change in net unrealized gains and losses on investments of (\$378) million for fiscal year ended December 31, 2018 due to volatility in equity markets in the fourth quarter. The shift in overall performance between fiscal years December 31, 2017 and December 31, 2018 is also due to the recognition of multiple years of revenue from the Hospital Fee Program in fiscal year ended December 31, 2017. For fiscal year ended December 31, 2017, the Sutter Health Obligated Group recognized \$432 million from the Hospital Fee Program compared to \$272 million for fiscal year ended December 31, 2018.

⁽²⁾ Calculated in accordance with the Master Indenture.

⁽³⁾ Assumes an annual interest rate of 5.00% on the Sutter Health Taxable Bonds Series 2013C and an annual interest rate of 4.00% on the California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2016C, from their respective mandatory tender dates until maturity.

Capitalization

The following table sets forth the actual capitalization of the Obligated Group as of December 31, 2018.

Capitalization of the Obligated Group (dollars in millions)	
	Fiscal Year Ended December 31, 2018
Long-Term Debt, including current portion	<u>\$ 4,336</u>
Total Long-Term Debt	4,336
Net Assets:	
Without donor restrictions:	
Controlling	8,082
Noncontrolling	112
With donor restrictions	<u>93</u>
Total Net Assets	8,287
Total Capitalization	<u>\$12,623</u>
Long-Term Debt to Capitalization Ratio	34.3%

Contractual Obligations and Other Contingent Commercial Commitments of the Obligated Group

The Obligated Group's contractual debt and capital lease obligations at December 31, 2018, are shown in the table below.

Contractual Debt and Capital Lease Obligations As of December 31, 2018 (dollars in thousands)

	Total Outstanding	Current Portion	Non Current 2020 - 2021	Non Current 2022 & thereafter
Long-term debt – bond principal ⁽¹⁾	\$ 4,336,575	50,070	98,725	4,187,780
Capital Leases ⁽²⁾	\$ 8,070	1,124	1,627	5,319

⁽¹⁾ Secured under the Master Indenture.

⁽²⁾ Not secured under the Master Indenture.

The Obligated Group also is obligated with respect to the following contingent obligations, which are secured under the Master Indenture. Sutter Health management expects to renew or replace any letters of credit as they expire, in accordance with the terms of such letters of credit.

**Contingent Commercial Obligations
As of December 31, 2018
(dollars in thousands)**

	Total Outstanding Commitment	Total Outstanding Commitment Due Fiscal Year 2019	Total Outstanding Commitment Due Fiscal Year 2020 and thereafter
Letters of credit	\$60	\$60	\$0

Other Matters

This Continuing Disclosure Report is provided solely pursuant to the Disclosure Agreements. The filing of this Continuing Disclosure Report does not constitute or imply any representation (i) that all of the information provided herein is material to investors, (ii) regarding any other financial, operating or other information about Sutter Health, the Obligated Group Members or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the quarter to which this Continuing Disclosure Report relates (other than as contained in this Continuing Disclosure Report), or any other date specified with respect to any of the information contained in this Continuing Disclosure Report, or that no other information exists, which may have a bearing on the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this Continuing Disclosure Report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Continuing Disclosure Report should be construed as a prediction or representation about future financial performance of Sutter Health or any Obligated Group Member.

Dated: March 6, 2019

SUTTER HEALTH, a California nonprofit public benefit corporation, on behalf of itself and the other Obligated Group Members

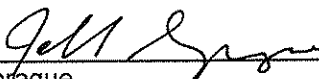
By: 
Senior Vice President and Chief Financial Officer

Officer's Certificate of the Corporation
as to Compliance with No Event of Default Covenant

I, Jeff Sprague, Senior Vice President and Chief Financial Officer of Sutter Health (formerly Sutter Health/California Healthcare System), do hereby certify, in accordance with Section 3.09(c) of the Master Indenture of Trust by and between Sutter Health, the other Obligated Group Members (as defined therein) and U. S. Bank Trust, National Association, as Trustee, dated August 1, 1985, that, to the best of my knowledge,

No event which constitutes an Event of Default has occurred and is continuing as of the date of this certificate.

Certified by:



Jeff Sprague
Senior Vice President and Chief Financial Officer
Sutter Health

March 6, 2019

Supplemental Information

Acute Care Payer Mix

As of December 31, 2018

	Medicare		Medi-Cal		Commercial		Other	Total
	Non-Capitated	Risk	Non-Capitated	Risk	Non-Sutter Risk	Risk		
Sutter Medical Center-Sacramento	32.6%	6.9%	24.1%	0.0%	23.0%	4.8%	8.6%	100.0%
Sutter Solano Medical Center	45.0%	0.0%	35.8%	0.0%	16.8%	0.3%	2.1%	100.0%
Sutter Davis Hospital	34.1%	7.9%	22.5%	0.0%	28.6%	5.0%	1.9%	100.0%
Sutter Coast Hospital	49.0%	0.0%	28.4%	0.0%	20.1%	0.0%	2.5%	100.0%
Sutter Delta Medical Center	42.8%	1.2%	35.2%	0.0%	17.1%	0.6%	3.1%	100.0%
Sutter Auburn Faith Hospital	49.9%	11.5%	14.3%	0.0%	19.0%	3.6%	1.7%	100.0%
Sutter Tracy Community Hospital	34.7%	0.0%	30.6%	0.0%	30.6%	0.8%	3.3%	100.0%
Sutter Roseville Medical Center	40.7%	8.4%	16.8%	0.0%	27.1%	4.4%	2.6%	100.0%
California Pacific Medical Center	42.9%	0.3%	15.8%	2.7%	33.6%	1.2%	3.5%	100.0%
Sutter Maternity and Surgery Center	35.3%	0.3%	9.3%	0.0%	51.8%	2.0%	1.3%	100.0%
Mills Peninsula Medical Center	44.3%	7.0%	10.4%	0.0%	34.5%	2.3%	1.5%	100.0%
Sutter Lakeside Hospital	49.5%	0.0%	31.6%	0.0%	16.9%	0.0%	2.0%	100.0%
Memorial Medical Center & Memorial Hospital Los Banos	37.3%	12.3%	25.2%	0.0%	20.6%	2.8%	1.8%	100.0%
Novato Community Hospital	54.8%	0.6%	16.6%	0.0%	25.1%	0.8%	2.1%	100.0%
Alta Bates Summit Medical Center	42.3%	0.5%	25.4%	0.0%	26.3%	1.1%	4.4%	100.0%
Sutter Santa Rosa Regional Hospital	40.0%	4.0%	25.0%	0.0%	23.4%	4.7%	2.9%	100.0%
Sutter Amador Hospital	58.1%	0.3%	19.8%	0.0%	20.0%	0.1%	1.7%	100.0%
Eden Medical Center	46.0%	0.3%	26.3%	0.0%	24.1%	0.7%	2.6%	100.0%
Menlo Park Surgical Hospital	25.2%	1.2%	1.2%	0.0%	67.2%	3.0%	2.2%	100.0%
Total Acute Care Payer Mix (%)	40.7%	4.4%	21.9%	0.4%	26.3%	2.5%	3.8%	100.0%

Sutter Health
Acute Care Utilization Statistics

	2015	2016	2017	2018
Obligated Group Total				
Current Licensed Beds ¹	4,470	4,466	4,466	4,393
Beds in Service ²	4,062	4,055	4,082	4,215
Admissions	189,568	198,185	193,202	187,713
Patient Days	873,732	892,592	868,809	846,919
Average Length of Stay	4.6	4.5	4.5	4.5
% Occupancy Based on Beds in Service	58.9%	60.3%	58.3%	55.0%
Emergency Room Visits	867,113	873,966	868,837	844,249
Outpatient Revenues	8,539,528,847	8,945,870,751	9,355,708,283	9,774,679,432
Total Gross Revenues	22,446,229,479	23,297,759,241	23,521,450,120	24,061,534,271
Outpatient Revenue as % of Total Revenues	38.0%	38.4%	39.8%	40.6%
Sutter Medical Center Sacramento				
Current Licensed Beds	596	596	596	596
Beds in Service	596	596	596	596
Admissions	31,724	31,847	33,245	31,535
Patient Days	149,047	155,098	158,148	149,266
Average Length of Stay	4.7	4.9	4.8	4.7
% Occupancy Based on Beds in Service	69%	98%	73%	69%
Emergency Room Visits	99,339	100,427	103,164	102,807
Outpatient Revenues	922,966,113	1,056,165,987	1,157,778,686	1,265,776,574
Total Gross Revenues	3,443,026,546	3,622,494,769	3,752,406,962	3,832,767,608
Outpatient Revenue as % of Total Revenues	26.8%	29.2%	30.9%	33.0%
Novato Community Hospital				
Current Licensed Beds	47	47	47	47
Beds in Service	47	47	47	47
Admissions	1,633	1,790	1,828	1,944
Patient Days	5,598	6,111	6,367	6,131
Average Length of Stay	3.4	3.4	3.5	3.2
% Occupancy Based on Beds in Service	33%	36%	37%	36%
Emergency Room Visits	14,850	15,087	15,299	15,478
Outpatient Revenues	130,529,111	133,630,040	141,866,011	133,036,039
Total Gross Revenues	239,930,956	236,086,089	243,095,349	238,712,981
Outpatient Revenue as % of Total Revenues	54.4%	56.6%	58.4%	55.7%
Sutter Coast Hospital				
Current Licensed Beds	49	45	49	49
Beds in Service	49	42	46	49
Admissions	1,877	2,075	4,448	2,394
Patient Days	6,271	8,052	9,571	9,564
Average Length of Stay	3.3	3.9	2.2	4.0
% Occupancy Based on Beds in Service	35%	53%	57%	53%
Emergency Room Visits	21,508	22,326	21,329	19,655
Outpatient Revenues	139,655,822	145,151,304	157,433,263	162,356,102
Total Gross Revenues	207,687,669	231,521,955	263,008,669	271,793,256
Outpatient Revenue as % of Total Revenues	67.2%	62.7%	59.9%	59.7%
Sutter Solano Medical Center				
Current Licensed Beds	102	102	106	106
Beds in Service	102	102	106	106
Admissions	4,098	4,246	4,456	4,087
Patient Days	17,152	17,786	18,781	17,336
Average Length of Stay	4.2	4.2	4.2	4.2
% Occupancy Based on Beds in Service	46%	48%	49%	45%
Emergency Room Visits	41,559	40,898	38,291	35,062
Outpatient Revenues	268,727,064	261,713,920	264,129,826	265,278,110
Total Gross Revenues	552,635,232	561,339,759	582,858,678	568,324,186
Outpatient Revenue as % of Total Revenues	48.6%	46.6%	45.3%	46.7%

Sutter Health
Acute Care Utilization Statistics

	2015	2016	2017	2018
Sutter Davis Hospital				
Current Licensed Beds	48	48	48	48
Beds in Service	48	48	48	48
Admissions	3,574	3,710	3,918	3,810
Patient Days	9,209	9,896	11,030	10,877
Average Length of Stay	2.6	2.7	2.8	2.9
% Occupancy Based on Beds in Service	53%	56%	63%	62%
Emergency Room Visits	28,595	29,164	29,242	29,078
Outpatient Revenues	209,171,532	237,349,125	255,391,580	263,065,734
Total Gross Revenues	361,729,281	405,969,707	439,011,463	450,202,076
Outpatient Revenue as % of Total Revenues	57.8%	58.5%	58.2%	58.4%
Sutter Auburn Faith Hospital				
Current Licensed Beds	64	64	64	64
Beds in Service	64	64	64	64
Admissions	3,482	3,678	3,036	3,076
Patient Days	11,232	12,098	10,480	10,240
Average Length of Stay	3.2	3.3	3.5	3.3
% Occupancy Based on Beds in Service	48%	52%	45%	44%
Emergency Room Visits	28,206	29,855	29,528	28,947
Outpatient Revenues	254,471,262	293,208,717	299,727,539	332,632,224
Total Gross Revenues	433,807,323	486,805,923	478,903,937	515,067,596
Outpatient Revenue as % of Total Revenues	58.7%	60.2%	62.6%	64.6%
Sutter Delta Medical Center				
Current Licensed Beds	145	145	145	145
Beds in Service	145	145	145	145
Admissions	8,189	7,966	7,491	7,411
Patient Days	31,101	29,381	28,993	27,864
Average Length of Stay	3.8	3.7	3.9	3.8
% Occupancy Based on Beds in Service	59%	56%	55%	53%
Emergency Room Visits	59,696	60,913	58,705	54,403
Outpatient Revenues	293,022,249	296,759,044	319,798,959	317,074,807
Total Gross Revenues	782,414,063	764,037,914	791,202,016	798,960,253
Outpatient Revenue as % of Total Revenues	37.5%	38.8%	40.4%	39.7%
Sutter Lakeside Hospital				
Current Licensed Beds	30	30	30	30
Beds in Service	30	30	30	30
Admissions	1,704	1,718	1,844	1,917
Patient Days	5,790	5,575	5,930	6,110
Average Length of Stay	3.4	3.2	3.2	3.2
% Occupancy Based on Beds in Service	53%	51%	54%	56%
Emergency Room Visits	19,692	20,545	20,553	19,783
Outpatient Revenues	126,671,126	145,558,463	170,838,123	168,313,799
Total Gross Revenues	192,087,691	202,408,991	237,088,270	234,816,323
Outpatient Revenue as % of Total Revenues	65.9%	71.9%	72.1%	71.7%
Sutter Amador Hospital				
Current Licensed Beds	52	52	52	52
Beds in Service	52	52	52	52
Admissions	2,525	2,400	2,411	2,396
Patient Days	9,107	8,705	8,725	8,881
Average Length of Stay	3.6	3.6	3.6	3.7
% Occupancy Based on Beds in Service	48%	46%	46%	47%
Emergency Room Visits	23,219	24,648	24,276	23,215
Outpatient Revenues	115,888,894	143,621,764	152,524,815	158,868,056
Total Gross Revenues	245,843,424	263,901,962	274,519,970	289,980,042
Outpatient Revenue as % of Total Revenues	47.1%	54.4%	55.6%	54.8%

Sutter Health
Acute Care Utilization Statistics

	2015	2016	2017	2018
Sutter Tracy Community Hospital				
Current Licensed Beds	81	81	77	77
Beds in Service	81	81	77	77
Admissions	3,949	3,931	3,826	3,661
Patient Days	12,121	12,314	12,259	11,132
Average Length of Stay	3.1	3.1	3.2	3.0
% Occupancy Based on Beds in Service	41%	42%	44%	40%
Emergency Room Visits	38,236	38,003	36,944	35,846
Outpatient Revenues	277,752,731	257,997,832	266,167,563	274,177,942
Total Gross Revenues	462,086,653	450,730,541	455,391,247	455,080,816
Outpatient Revenue as % of Total Revenues	60.1%	57.2%	58.4%	60.2%
Sutter Roseville Medical Center				
Current Licensed Beds	328	328	328	328
Beds in Service	328	328	328	328
Admissions	19,575	20,195	19,799	19,837
Patient Days	84,021	91,669	87,783	86,163
Average Length of Stay	4.3	4.5	4.4	4.3
% Occupancy Based on Beds in Service	70%	77%	73%	72%
Emergency Room Visits	79,268	80,555	80,823	81,554
Outpatient Revenues	551,990,731	652,145,291	748,886,023	845,520,330
Total Gross Revenues	1,746,697,892	2,042,326,471	2,198,779,605	2,268,781,541
Outpatient Revenue as % of Total Revenues	31.6%	31.9%	34.1%	37.3%
Sutter Maternity and Surgery Center				
Current Licensed Beds	30	30	30	30
Beds in Service	30	30	30	30
Admissions	1,426	1,540	1,535	1,331
Patient Days	4,061	4,133	3,903	3,477
Average Length of Stay	2.8	2.7	2.5	2.6
% Occupancy Based on Beds in Service	37%	38%	36%	32%
Emergency Room Visits	-	-	-	-
Outpatient Revenues	110,554,585	121,024,770	140,004,621	149,983,259
Total Gross Revenues	169,634,733	179,785,088	200,799,150	204,101,797
Outpatient Revenue as % of Total Revenues	65.2%	67.3%	69.7%	73.5%
Sutter Santa Rosa Regional Hospital				
Current Licensed Beds	84	84	84	84
Beds in Service	84	84	84	84
Admissions	6,071	6,199	6,580	6,785
Patient Days	25,019	25,614	23,606	25,516
Average Length of Stay	4.1	4.1	3.6	3.8
% Occupancy Based on Beds in Service	82%	84%	77%	83%
Emergency Room Visits	31,218	35,047	34,545	35,275
Outpatient Revenues	262,020,726	331,352,883	365,115,148	399,278,618
Total Gross Revenues	613,488,034	748,992,688	790,730,801	882,400,936
Outpatient Revenue as % of Total Revenues	42.7%	44.2%	46.2%	45.2%
Memorial Medical Center & Memorial Hospital Los Banos				
Current Licensed Beds	467	467	463	459
Beds in Service	467	467	463	419
Admissions	18,322	18,781	18,972	18,718
Patient Days	82,350	81,569	79,039	79,308
Average Length of Stay	4.5	4.3	4.2	4.2
% Occupancy Based on Beds in Service	48%	48%	47%	52%
Emergency Room Visits	113,250	109,833	114,186	110,821
Outpatient Revenues	1,036,647,249	938,506,158	1,033,162,656	1,147,110,817
Total Gross Revenues	2,459,261,854	2,390,429,201	2,456,921,461	2,582,267,792
Outpatient Revenue as % of Total Revenues	42.2%	39.3%	42.1%	44.4%

Sutter Health
Acute Care Utilization Statistics

	2015	2016	2017	2018
Alta Bates Summit Medical Center				
Current Licensed Beds	918	918	918	918
Beds in Service	752	752	779	780
Admissions	29,707	35,545	29,875	29,225
Patient Days	166,842	164,653	155,393	151,871
Average Length of Stay	5.6	4.6	5.2	5.2
% Occupancy Based on Beds in Service	61%	60%	55%	53%
Emergency Room Visits	92,725	92,259	91,201	86,942
Outpatient Revenues	1,338,187,018	1,403,019,029	1,278,475,234	1,316,271,174
Total Gross Revenues	3,688,016,415	3,756,539,195	3,520,663,986	3,646,856,642
Outpatient Revenue as % of Total Revenues	36.3%	37.3%	36.3%	36.1%
Mills-Peninsula Medical Center				
Current Licensed Beds	301	301	301	301
Beds in Service	301	301	301	301
Admissions	13,334	13,060	13,391	13,447
Patient Days	58,397	58,508	58,741	59,393
Average Length of Stay	4.4	4.5	4.4	4.4
% Occupancy Based on Beds in Service	53%	53%	53%	54%
Emergency Room Visits	48,066	48,376	48,737	48,189
Outpatient Revenues	707,742,002	748,533,452	791,752,546	803,421,548
Total Gross Revenues	1,522,299,541	1,598,683,989	1,676,105,179	1,744,900,968
Outpatient Revenue as % of Total Revenues	46.5%	46.8%	47.2%	46.0%
Menlo Park Surgical Hospital				
Current Licensed Beds	16	16	16	16
Beds in Service	16	16	16	16
Admissions	214	214	230	225
Patient Days	312	279	366	365
Average Length of Stay	1.5	1.3	1.6	1.6
% Occupancy Based on Beds in Service	5%	5%	6%	6%
Emergency Room Visits	-	-	-	-
Outpatient Revenues	36,146,914	38,556,378	36,647,595	36,801,597
Total Gross Revenues	47,062,490	49,948,795	52,410,044	54,086,272
Outpatient Revenue as % of Total Revenues	76.8%	77.2%	69.9%	68.0%
California Pacific Medical Center				
Current Licensed Beds	982	982	982	913
Beds in Service	740	740	740	913
Admissions	30,060	30,042	27,417	26,842
Patient Days	157,439	162,432	152,251	145,361
Average Length of Stay	5.2	5.4	5.6	5.4
% Occupancy Based on Beds in Service	58%	60%	56%	44%
Emergency Room Visits	81,633	78,155	74,971	70,240
Outpatient Revenues	1,303,298,649	1,303,673,669	1,349,064,589	1,311,541,064
Total Gross Revenues	4,130,139,887	4,121,257,394	3,895,545,111	3,807,830,714
Outpatient Revenue as % of Total Revenues	31.6%	31.6%	34.6%	34.4%
Eden Medical Center				
Current Licensed Beds	130	130	130	130
Beds in Service	130	130	130	130
Admissions	8,104	9,248	8,900	9,072
Patient Days	38,663	38,719	37,443	38,064
Average Length of Stay	4.8	4.2	4.2	4.2
% Occupancy Based on Beds in Service	81%	82%	79%	80%
Emergency Room Visits	46,053	47,875	47,043	46,954
Outpatient Revenues	454,085,069	437,902,925	426,943,506	424,171,638
Total Gross Revenues	1,148,379,795	1,184,498,810	1,212,008,222	1,214,602,472
Outpatient Revenue as % of Total Revenues	39.5%	37.0%	35.2%	34.9%

Notes:

1. The calculation of current licensed beds conforms to the Office of Statewide Health Planning and Development's definition of "licensed bed."